

LAW 2.0:

RUNNING A LAW FIRM LIKE A SOFTWARE BUSINESS

Measuring key indicators, employing project management techniques and choosing technology intelligently can help legal administrators to guide their firms out of the lingering economic doldrums.

BY LARRY PORT

It is commonly said that what doesn't kill you makes you stronger – unless, however, what *almost* kills you also happens to transform your environment and you're left bewildered, trying to figure out how to regroup and what first steps to take.

Not only did the economic downturn of 2008 and 2009 chop revenues at law firms, but it also fostered long-fermenting industry changes. Cost-conscious clients now force firms to offer alternative fee arrangements, calling into question the time and place of the traditional billable hour. Legal process outsourcing and consumer access to do-it-yourself legal services add commoditization pressure to segments of the legal market.

So, as you look around at the bleak, smoldering landscape through which you must shepherd your firm, why not draw on some of the lessons of an entirely different vertical market? Like legal, the software industry is a highly collaborative, mission-critical, can't-afford-an-error type of business. Delivering tremendously complex technology products to market on time, on budget and without catastrophic bugs is not easy. To combat these challenges, software development processes and methodologies evolved over time to reduce risk and cost as well as eliminate inefficiencies.

Learning all the fine points of running a software business is a full-time job for technology professionals, let alone lawyers. But the following tidbits are simple, actionable tips that legal professionals can learn from the hard-wrought experiences of the software world.

SOFTWARE BUSINESS LESSON #1: GATHER DATA AND EXECUTE. REPEAT.

Imagine you're swimming toward an island. Every once in a while you need to stop and look up to see if you're getting closer to your goal, or if you're merely treading water.

In order to put your firm into Silicon Valley-type growth mode, it's critical to understand core firm measurements, or key performance indicators (KPIs). Wrapping your head around KPIs is not a one-time project, but a continual one, and firm administrators – at the helm of operations – are well positioned to spearhead such an initiative. KPIs are important to track over time because only ongoing data will paint a picture of your trend toward success or failure. Once you see the perhaps cold, harsh reality of your firm's performance, you can tweak execution strategies, change directions and check back to ascertain the effect on business. Then you execute, measure, execute, measure and keep on moving toward your goals.

In terms of specific KPIs, you should be able to quickly answer the following questions:

- **What are your profit margins?** If you can answer that question, you might be surprised how many firm administrators can't. If you don't know what your margins are, that's item No. 1 on your agenda. In order to understand your margins, you need to have a handle on two things, both of which your accountant or bookkeeper can tell you: how much revenue your firm brings in and how much it spends. The difference between the two is your income, and the ratio of income to revenue is your profit margin. If you spend 80 cents of every dollar you earn, then your profit margin is 20 percent. Once you establish your first benchmark margin measurement, track it over time and aim to improve it by reducing operating costs and increasing your top-line revenue.
- **How much revenue does a case generate, and how much does a case cost?** Each matter has its own characteristics and challenges beyond your sphere of influence, such as strategies of opposing counsel or temperaments of clients and judges. Cases also vary wildly in their fee arrangements: personal

injury matters are structured as settlement fees, contract litigation is billed by the hour and trademark registrations are flat fees. However, it's important to understand how much revenue each case generates, and it's equally important to know how much each case costs you. Cost per case boils down to the time spent by attorneys, paralegals and other billable resources. Expenses (such as copies, faxes and experts) will increase your costs if receivables for a matter are never collected. And even if a case's fee arrangement specifies flat fees or contingency billing, tracking time spent identifies the true cost of that matter. Skipping time tracking for non-billable hour work leaves a lot of data on the table that your firm could put to good use. Over time, you'll begin to understand which of your firm's cases have the highest return on investment, or which individuals are outperforming others in terms of your firm's bottom line.

- **What percent of your billing is realized?** Are you invoicing for all of your firm's work, and how many cents on the dollar does your organization get paid for that work? Your firm's realization refers to the percentage of work you collect. The first step toward improving realization is to measure work accurately, including any expenses incurred or work performed. The second step is to stay on top of your accounts receivable. Ideally, you collect at least 95 percent of all work invoiced. What's the realization at your firm? Aside from any courtesy "freebies" you give your clients, there's no reason why you shouldn't be collecting close to 100 percent of your work. Measuring – and ultimately increasing – firm realization is one of the quickest ways to boost profits for any business, but especially for law firms. Note that KPIs for a law firm could fill an entire volume. The ones selected for this article are just a few essential ones that each firm should move to the top of its list.

SOFTWARE BUSINESS LESSON #2: GET AGILE AND MANAGE CASES LIKE PROJECTS

Here's a dirty little secret from software-land: 44 percent of software projects fail. Either they run



Conceptually and in practice, legal cases are very similar to projects in the software industry. There are beginnings, desired outcomes and many steps along the way. Consequently, law firms can benefit from many of the tested techniques leveraged by high-tech folks who, incidentally, borrowed their project management ideas from automotive and manufacturing industries.

way behind and over budget, or they collapse completely into a smoking pile of shattered flowcharts and ambition. It's a real problem. Over the years, technology professionals have attempted to tame the wild beast of software creation via a process called project management (PM). Technology companies spend large amounts of money on PM payroll, training and implementation. PM comes in many flavors, but ultimately all forms are designed to achieve a specific goal by managing resources such as time, money and talent as efficiently and error-free as possible.

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A relatively new breed of PM called agile software development embraces a set of core principles including communication, iterative cycles and quick responses to change. All legal cases – especially dynamic projects like litigation matters, where unanticipated developments are the norm – can benefit from some of the following agile PM techniques:

- **Work in Iterations:** The concept of the iteration, or repeating cycle, is at the core of a flavor of agile called "scrum." Iterations are helpful because they allow for team alignment, continual feedback, data measurement and making any necessary adjustments. Software companies using scrum operate in arbitrary

chunks of one, two or more weeks called "sprints," at the end of which they review their work, take stock and plan for the next iteration. Law firms can also leverage iterations. Many already do, in a sense, with their Monday morning matter review sessions. The goal should be to make sure these review meetings are fast, efficient and hold people accountable for their work. Ideally, review meetings include taking a look at your key performance indicators to see how initiatives and case progress are faring.

- **Start, Stop, Continue:** Returning to the island analogy: You swim for a while, take stock, swim some more and take another look. When you pause to measure your progress, you consider whether what you're doing is working. Should you tack against current, swim faster or slower, or perhaps head toward a buoy and wait for rescue? Iterative work cycles go hand and hand with regular introspection. Agile software company teams hold 30-minute retrospectives after each sprint, asking themselves three questions: 1) What should we start doing that we're not doing? 2) What should we stop doing that we're doing? 3) What should we continue doing that we recently started that seems like it's working? "Start, Stop, Continue" meetings reveal bottlenecks and allow you to crowd-source your process improvements. It's important to note, however, that retrospectives work only in companies where accountability, candor and openness are tolerated. If your law firm maintains a culture in which employees are afraid to

speaking their minds, retrospectives will offer little value.

- **Set Milestones:** Milestones are used in PM as deadlines for deliverables. In software PM, milestones can focus on steps toward completion of the project (i.e., “Finish undo feature”) or the end goal of project completion (i.e., “Finish and ship word processor”). Setting milestones helps you to gauge whether your teams are on track to deliver the end result on time. In the practice of law, milestones become especially powerful because firms typically manage dozens, hundreds or even thousands of matters simultaneously. Not only can they help with the orderly progression toward trial or resolution, but they also allow you to compare cases of similar makeups against one another, as well as teams of personnel. By tracking who runs behind and over budget on what cases versus who comes in on time and under budget, legal managers can identify and ideally eradicate inefficiencies.

SOFTWARE BUSINESS LESSON #3: EMPLOY TECHNOLOGY TO HELP YOU

If the previous section on measuring KPIs scared you, never fear: Technology can help. Not surprisingly, software companies are leaders in technology adoption due to their very nature and the personal interests of the individuals that run them. Law firms, on the other hand, tend to be technical laggards.

The causes for slow technology adoption in the legal market are many and beyond the scope of this article. But just as the first farm to use a plow and the first factory with electricity outpaced all of their competitors, early-adopter law firms enjoy a huge competitive advantage over their peers in several areas:

- **Practice Management Tools:** Just as software companies use project management tools to track and monitor the progress of specific initiatives, law firms benefit from using practice management software. One of the most important tools that any firm can employ for a more efficient and measurable business. Employees of state bar associations around the United States (or law societies in Canada) have long advised law firms to manage their

matters, clients and time through this breed of software. The advantages of using dedicated practice management systems (rather than cobbling together different components) for mission-critical functionality are many, including more accurate, error-free and efficient work as well as consolidated system maintenance for administrators. Over time, you can mine your practice management software for the KPIs discussed earlier in this article. Practice management tools now come in many varieties and configurations, including desktop versions such as Thomson Elite, Amicus Attorney, or Tabs3. Internet-based solutions (such as Rocket Matter, my employer) are also available for firm administrators who are looking for a cross-platform, mobile, cloud solution. Determining initial and ongoing costs, as well as ease of training and firm roll-out and adoption, must be explored before moving to any core piece of functionality.

- **Productivity Tools:** Software geeks tend to be productivity junkies, turning blogs like Lifehacker and 43 Folders into million-hit wonders and elevating organization and time-management gurus such as David Allen to cult-like status. Most programmers or designers end up discovering and latching on to certain productivity apps to streamline their work. Some of the the biggest efficiency boosters workable in a law firm setting include Text Expanders (such as ActiveWords on the PC or Typelt4Me on the Mac, both of which allow users to type in a key combination and have a series of automated computer actions take place) and Mind Maps (brainstorming tools developed by cognitive psychologists to help extract ideas from a person or group and make sense of their creative output).
- **Collaborative Tools:** Software firms historically tend to be more distributed than law firms, but that is changing. Not only large firms maintain multiple offices; mid-size firms are getting in on the game, and even smaller firms have telecommuters, contract attorneys or virtual assistants. Software construction, like law, is highly collaborative, and the ability to communicate ideas clearly and quickly is

important. Skype, which is known primarily as an Internet telephone service, is a remarkably powerful, low-cost tool, providing face-to-face video conferencing across Macs and PCs as well as a powerful instant messaging tool. Skype can interface with traditional telephone networks, allowing individuals to initiate calls to land lines and cell phones from their computers. Skype numbers allow direct calls to be received or forwarded from 1-800 numbers or Virtual PBX solutions, like Phone.com. SocialText allows firms to build online in-house communities, providing firmwide wikis, perfect for documenting client intake or other repeatable processes, private Twitter-like microblogging capabilities, blogs and more. Collaboration on this scale streamlines processes by encouraging operational refinement, increases accountability through work status updates and fosters idea exchange.

SEIZE THE OPPORTUNITY

The suggestions in this article are not revolutionary. They are well-thought-out and highly evolved techniques that successful technology organizations have employed for years. Measuring key indicators, employing project management techniques and choosing technology intelligently will help you to build a very powerful roadmap to help guide your law firm out of the lingering economic doldrums. ✚

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