

Your Next

What You Should Consider Before You Buy



There are numerous ways to improve the financial health of your firm, right? You could schedule a strategic planning retreat with your partners. You could consider changing your client mix, areas of practice or rates. You could rethink your reward systems and how you divide the pie. Or you could determine where you want to go and how you will measure your success.

The late Robert J. Arndt, author of the ABA's *Managing for Profit: Improving or Maintaining Your Bottom Line*, a must-read book for any lawyer or law firm manager, often spoke about the importance of good management as the foundation for success in the business of practicing law. (See sidebar on page 46.) Selecting the right legal billing and accounting system can be the backbone of a sound profitability program. The right system helps a firm apply strategies to increase income and measure whether profit goals are being met. It tells you what you need to know so that you can manage your firm.

A Three-Step Process

Selecting the right legal billing system for your practice's needs is a simple three-step process.

James A. Eidelman

Billing System

1. Decide what you need. Consider Bob Arndt's "profitability levers." According to Arndt, you can improve your firm's finances by remembering the acronym RULES. The elements to consider are *rates*, *utilization*, *leverage*, *expenses* and *speed of collection* (see sidebar).

2. Eliminate programs that don't have what you need. This sounds simple, but it can be a challenge. Many

firms find out that a package doesn't do what they need—or what they *thought* it would do—only after they buy it and convert their data. Then it's just too late.

3. Select the programs that meet your needs, keeping price and support in mind. One firm I worked with was configured like a group of solo practitioners. They shared space, compensation arrangements and expense arrangements even though they were one firm. This involved tracking revenue according to dollars received by the originating, responsible and working attorney—a common occurrence—and expenses at the staff level. That is, they billed each other for one lawyer's use of another lawyer's associate or paralegal—an unusual occurrence.

The firm wanted pre-billing reports that would show the time at both internal rates and external rates, with similar reports throughout. This was unusual at the time, and none of the popular systems would do this. Eventually we found a package that would do it, and the firm is happy.

Big Picture Questions

Take time to consider these big picture questions about your billing needs:

- Does the system produce a bill that is designed the way the you want it to look?

- If the firm bills based on flat rates, retainers and contingent fees, does the system handle these efficiently?
- If the firm is based in Canada, or a state that imposes a sales tax on services, does the system correctly handle sales tax?
- Does the system meet the firm's needs in reporting for multiple offices, departments, practice areas and other profit centers?
- What about any special needs of major clients of the firm, such as bills with breakdown formats or e-billing?
- What about cost tracking (telephone, copiers, fax machines and legal research)?
- Does the system support off-line time entry from laptops and Palm-Pilots?
- Have you anticipated future needs?

Factors to Consider for a True Fit

For a true fit, consider these factors when assessing a billing system.

■ **User-Friendliness.** Some packages require a well-trained guru to act as system administrator, while others are much easier. The same is true for ease of use by lawyers and staff. (Note that time entry may be different from billing and reporting in this regard.)

The right legal billing system can help you reach your professional goals. Here's a primer on how to select the system that's right for your practice.

Bob Arndt and His Profitability Levers

Robert Arndt passed away last November. He was an expert on financial management of law firms (*the top ABA Law Practice Management Section expert on those matters*) and director of Price Waterhouse's Legal Consulting Group. While his clients were large firms with complex problems and large budgets, he patiently took his extra time to contribute to the legal profession as a whole, including the great majority of lawyers who practice in small firms. He was willing to step up and lead, and he shared his interest in leadership as co-chair of the Section's Leadership Activities Board, dedicated to introducing the legal profession to the need to develop leadership skills. He wrote many articles through the years, gave dozens of presentations, and published several books on law office finance. His book, *Managing for Profit: Improving or Maintaining Your Bottom Line*, is a must-read book for any lawyer or law firm manager. For those of us who valued his ideas, and valued Bob as a friend—thanks, Bob. We'll miss you.

According to Bob Arndt, four factors contribute to a law firm's success: (1) excellent management, (2) high quality of legal services, (3) successful marketing to the right clients, and (4) luck. Always one to bring simplicity and clarity to complex ideas, Bob created two easy-to-remember acronyms to help lawyers understand how to improve profitability. These are represented by five economic "levers" that directly impact the firm's finances and five management levers that indirectly improve the firm's profitability by improving the firm as a whole (see chart at left).

Those who didn't have a chance to hear one of Bob's outstanding presentations can still benefit from his excellent ideas, articulately expressed in a well-organized way, by reading *Managing for Profit*. The book explains both the components of each lever and how any law office can use them. In *Managing for Profit*, Arndt concludes:

Those who have a vision of where they want to go and of the matters likely to affect them as they proceed are generally more successful than those who do not.

... Law firms are like people and other organizations. There are firms that

- make things happen;
- watch things happen;
- ask what happened; and/or
- don't realize anything is happening.

The difference is MANAGEMENT.

— James A. Eidelman

For information on *Managing for Profit* call the American Bar Association at (800) 285-2221 or visit www.abanet.org/lpm/catalog.

THE FIVE ECONOMIC LEVERS

There are only five components to increasing revenues:

R.U.L.E.S.

You can improve:

Rates

- Increase effective hourly rates
- Change your client mix so that you can practice in specialties that have higher rates (the most important thing most firms can do to improve profitability)

Utilization

- Record and collect for more hours
- Record and collect for more cases/ transactions billed on a per-item basis

Leverage

- Paralegals, secretaries and junior attorneys can do more
- Strike the right balance of partners and associates
- Delegate to the computer

Expenses

- Reduce expenses

Speed of Collection

- Bigger retainers
- Bill frequently for more frequent and faster payment

THE FIVE MANAGEMENT LEVERS

S.C.O.R.E.

Have a stronger firm by improving your:

Strategy

- Strategic planning
- Identifying the factors affecting the firm's goals
- Tactics to create an internally supportive and externally competitive organization to accomplish goals.

Culture

- Shared values
- Leadership and management
- Image
- Work ethic

Organization

- Organizational structure
- Delegation of responsibility and authority
- Selecting the right people

Reward Systems

- Motivating the right behaviors and fairness in dividing the pie among partners and rewarding others

Environment (internal)

- Physical facilities
- Staff
- Technology and support systems
- Research tools
- Management tools

If the administrator currently prepares custom reports using a calculator or a spreadsheet, try to find a system that can automatically create those spreadsheets or reports. Often a firm can redeploy a staff member just by getting a system that can create the right reports.

Some packages have customizable fields in some tables, and many have report writers available, such as Crystal Reports (the leading one). Even better, many systems can now output their data directly to a format that is compatible with Microsoft Excel and other spreadsheet programs. These features may be necessary to help the firm meet certain present or future needs.

Key features that traditionally separate *legal* billing systems from *general-purpose* time and billing systems are:

- The way the system handles long narrative text entries
- The way the system handles pre-billing adjustments (also called “write-ups” and “write-downs”)
- Greater flexibility in handling rates and retainers.

■ **Integration with General Ledger.** Is integration with General Ledger a requirement? In many firms, the difference in the way the software handles accounting is even more important than the way the system handles billing. This is especially true if there are branch offices, and you need to do profit-center-based cost accounting. Most packages just fail to do it in a user-friendly way or the way the firm needs.

Some packages only offer time and billing, while others integrate on different levels:

- **Total integration.** Includes PC Law/PC Law Jr., Juris, ProLaw and very large firm packages such as Elite and CMS.
- **Same vendor, different program.** The same software house and interface,

but data gets exported from one separately-functioning module into the other. In TABS, for example, the user-interface is now seamless, but the system doesn't automatically apply fees and costs that are paid by the same check to different GL accounts. Users must enter two different payment transactions, one for fees and one for expenses/advances.

- **Different software houses,** but supported and integrated by the billing system vendor.

“Some packages have great on-screen reports. . . . There should be a quick ‘what do we have in this case?’ query that you can display if a client calls.”

- **Different packages that have some links** but you are pretty much on your own to operate each. An example would be Timeslips integration with One-Write Plus or QuickBooks.

■ **Case Budgeting.** Some business clients require significant case budgets at the outset, and may require the firm to report how actual billing compares with the budget.

■ **Integration with case management.** In general, using an integrated case management system is a good thing to do. Practices that don't have case management and are looking to change billing systems should plan to implement case management and billing in a way that the two fit together. Consider the following:

- ProLaw's time and billing and accounting modules (back office) are totally integrated with case management (front office).
- TimeMatters has tight integration with Timeslips and also integrates with many other billing systems.

Amicus Attorney has tight integration with PC Law Jr., Timeslips and other packages.

- Software Technology is about to release a new version of CaseMaster that will be competitive with the other case management systems, and it will integrate tightly with STI's TABS III billing and accounting.

■ **On-screen displays and reports.**

Some packages have great on-screen reports that come on screen in a few seconds.

There should be a quick “what do we have in this case?” query that you can display if a client calls. Ideally it should have aging information. An example: a one-click snapshot on-screen report that has aging information, with columns for current, 30 days, 60 days, 90 days, 120 days plus, and total, with rows for unbilled work in progress (fees, costs advanced, other and total) and accounts receivable (fees, costs, other and total), and grand total.

The same information should be available in one printed report, rather than having to run one report for aged receivables and a different one for aged works-in-progress. This is the single most important report in many firms, and can be run by client, attorney or area of law.

■ **Data entry approaches.** Here are the options to consider and questions to ask about data entry.

- **Batch vs. online.** There are advantages to each. Some packages have batch entry of data, while others have on-

■ FIGURE 1: BEST-SELLING FINANCIAL SOFTWARE PACKAGES

Best-selling packages in use by firm size:	
TYPICAL FIRM SIZE	BEST-SELLING SOFTWARE
Solo practices and very small firms	Timeslips
5 to 10 lawyers	Software Technology's TABS III (PC Law Jr. and Timeslips have a significant market share too)
15 to 50 lawyers	Juris (Also TABS, PC Law)
5 to 100 lawyers	ProLaw, ASA, CSS, Omega, Orion, PC Law, Javalan
More than 100 lawyers	Elite ,CMS Data

line data entry, so that the information is up-to-date. A combination can work well, which includes an online system that lets you enter batches offline and update them.

- **Interactive time entry with software stopwatch.** Timeslips has a very user-friendly interface that lets you see whether the timer is on or off, navigates between slips, and starts and stops the timer. One keystroke can copy the contents of another slip, create a new slip and perform other functions. Best of all, you can look at a summary of the day to see how many billable, nonbillable, and total hours you have entered so far. This makes it easy to make sure you have recorded all of your time before you go home for the day. Many other packages have introduced similar features, and Carpe Diem and DTE (Distributed Time Entry) also offer excellent approaches to data entry.
- **Sheet vs. form view.** Is time entered in traditional data entry screens, one record per screen, or does the interface look like a time sheet? The benefit from one that resembles a time sheet is that you can see the day at a glance.

- **Remote time entry.** Does the package offer a remote timekeeping module so that lawyers with laptops or working at home can record their time? If so, what is the cost?

- **Security.** Some firms want to lock access to certain information from certain people. (At a gross level, partners might not want associates and staff to know how much they are earning. Some firms keep associates from knowing what is being billed for them, or even who the client contact is.)

- **Flexibility in changing to billing and reporting.** If you want to change a line in a bill, some packages let you make edits similar to the way a word processing program allows. Others ask that you navigate through menus, find the correct translation, open the record, make changes and save it.

- **Open vs. closed architecture.** The packages offer different levels of ability to access the data with a database program, report writer, spreadsheet, or custom program through ODBC (Microsoft Open Database Connectivity) or other approach. Juris, for example, has openly published its data structures and support-

ing ODBC in its current version.

- **Audit trails, unbilling/unfinalizing, recreating bills.** Traditionally, law firms like flexibility and are frequently changing things. Packages with audit trails that make certified public accountants happy are frustrating to small firms that want to easily change things. There are flexibility trade-offs. Modern packages let you unbill a bill. Some save old transactions and let you re-create a bill, while others purge the transaction detail upon billing and finalization. Some packages do not require that you close a month, while others have an end-of-month process and you can't go back.

- **Technical considerations and architecture.** The software packages vary in speed, memory, disk space, network use, offline use, and client/server or "thin client"/Web browser access. How easy is the system to support? It's a trade-off. The larger-firm packages that use a relational database such as SQL Server as a platform require a database administrator to deal with the database components. Openness is very valuable, but having to manage the database can be a headache. Is the system free of crashes and corrupt data files? Is it reliable? Does it come with utility programs to resolve these kinds of issues if they do occur?

- **Lawyer utilization.** Does the system support the firm's efforts to make sure that lawyers bill all of their time, and that the time has all been entered into the computer? Is there a report for budgeted time versus actual time? Does the system have a user-friendly "missing time" report, preferably in a calendar format? This is very helpful in spotting days in which time wasn't all recorded or entered.

Size and Specialty Affect Choice

- **Firm size.** There are different tiers of products for different firm sizes. The larger the firm, the greater its needs.

Packages for larger firms include integrated general ledger, with robust profit center accounting; ability to handle very large data files without crashing or bogging down; sophisticated management reports; and open architecture. In addition, larger systems entail much more consulting and support to convert, tailor, and customize—a large firm may have several people working full time on the implementation and conversion.

Figure 1 shows the typical firm size of the various packages. The distributions are actually overlapping bell-shaped curves, and each has users whose firm size is much smaller and much larger than their “typical” users.

■ **Practice areas.** Some practice areas have special billing needs. Intellectual property firms, for exam-

Practical Pointers

■ **Avoid new software.** A billing system is not an appropriate situation for a firm to be a beta tester. Wait until the word on the street is that the software works well and is free of problems. This applies to new versions that are software rewrites.

■ **Avoid old software.** It’s a 32-bit world out there, with packages that have open architecture, integrate well and have remote timekeeping modules. Many are building Web browser front ends. Don’t buy a package based on 16-bit architecture or a closed system. The same is true for software written in unpopular programming languages.

■ **Try a demo.** Get a demo copy of the software, set up the billing formats and reports you need, and test to make sure that all of the partners and key

“...test to make sure that all of the partners and key administrative staff are satisfied with the bills and reports—including the way it handles write-ups and write-downs.”

ple, often need submatters in the client/matter hierarchy, or some other way to handle this. For example, CocaCola is the client, “Coke” is the trademark matter, and each registration (federal, United States, foreign country or state) is the subfile. Plaintiffs’ attorneys need systems that will handle contingent fees and handle retainers, expenses and referral/co-counsel fees appropriately. Insurance defense firms have dozens of special issues, including task-based billing, e-billing, monitoring for certain expenses or activities not allowed by certain clients and billing when expenses exceed a certain amount.

administrative staff are satisfied with the bills and reports—including the way it handles write-ups and write-downs. This will reduce the risk of a “gotcha.”

■ **Get lawyers involved.** Lawyers must be involved in the selection and implementation—especially implementation. Too many firms take a hands-off or “too-busy” attitude and fail to define their needs, define codes, design reports and set up procedures to meet their needs. Years ago, I persuaded the managing partner of a five-lawyer firm to attend a training session with the staff member who was implementing the system. A year later the partner said he loved the new billing

system. Attending the training was very productive for him. It fostered an excellent teamwork relationship with his staff person, and together, at the training, they were able to plan all of the codes, reports and procedures, with assistance from the vendor, to assure a smooth implementation.

■ **Don’t change billing systems unless you have a good reason.** Lawyers generally underestimate the non-billable time and stress associated with changing billing systems. Don’t do it unless you really need to.

■ **Don’t be “penny wise and pound foolish.”** Invest the time and effort into doing it right. Spend as much as you need to spend to get the right system. Over the years you own it and use it, millions of dollars worth of information will pass through the system. Saving a few hundred dollars, or even a few thousand dollars, by buying a system that fails to meet your needs is a false economy.

■ **Clear your calendar, especially in a small firm.** In a small firm, do not implement a new system at a time when lawyers or key staff members need to focus on other tasks. A lawyer-secretary team shouldn’t implement a billing system while preparing for a major trial or closing a major transaction. Getting off to a good start is critical.

■ **Train, train, train.** When implementing the system, get enough training from the vendor, consultant or other experienced resource.

Any of the systems currently on the market can be implemented successfully. When you hear a disaster story, the software package is usually blamed, but most often the problem was that the system was not selected, implemented or used properly. ■

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