

No matter who you speak to, clients are saying the same things about what they are looking for from their outside counsel.

They want “value,” which they define as:

- Efficiency
- Predictability
- Cost Effectiveness

LAW FIRM PROFITABILITY INSIGHTS

Profitability from Efficiency

These have not traditionally been the watchwords for law firms. However, given the shift in the legal market in recent years, clients are taking the reins and exerting steadily increasing pressure on law firms to deliver that desired value.

Of the identified categories of value, efficiency is perhaps the area where law firms can do the most to maintain and even boost their profitability while still providing what clients are seeking.

To illustrate this, we can view the “widget” a law firm sells as its lawyers’ time. Each hour lost to write-downs or other unbillable time is a widget that can never be resold to another client. Because there is no remaining sellable unit once that hour is gone, it represents waste, or pure inefficiency.

This waste is no small drain on law firm profits. A market study completed by Thomson Reuters Legal Executive Institute showed that junior associates lost, on average, 450 potentially billable hours every year to various tasks for which the client is never billed, and partners lost nearly 285 hours per year. So a 100-person firm with 40 partners and 60 associates could lose, on average, 38,000 hours per year. Even at a modest average billing rate of \$350 per hour, that represents well over \$13 million in lost revenue.

While it would be impossible to completely eliminate write-offs or write-downs, it is possible to dramatically reduce them by focusing on the reason for the write-offs. For example, it’s a safe assumption that a fair portion of this lost time is time spent “getting up to speed.” I’ve spoken with countless lawyers over the years who acknowledged spending hours trying to find examples of filings to use as a drafting guide and/or significant amounts of time getting their bearings on a particular legal issue.



In today’s market, law firm profitability is directly impacted by lawyer efficiency, which in turn is dependent on how well a firm uses its internal know-how and resources.



Law firms can help limit the amount of time lost to this type of background research through effective knowledge management. [This article from Nick Milton](#) makes the argument that knowledge is actually divided into two different concepts: Know-what and know-how. As he defines it: "Know-what is about knowing facts. Know-how is about understanding actions and processes – understanding what to do with the facts."

A firm's knowledge management strategy has to incorporate both. Know-what comes through the library and online legal research resources. Know-how comes from experience, and in lieu of that, from online sources of exemplar documents, practice guides, and a well-maintained repository of internal documents that lawyers can use to help prevent the need to recreate the wheel.

Giving lawyers access to an effective and easily searchable suite of knowledge management solutions will help to limit the amount of time it takes to get up to speed and to get the desired level of know-how. This results in fewer lost hours, and therefore less waste and inefficiency.

In terms of that value that clients are looking for, firms can get a lot closer to delivering when they focus on getting that know-how to their lawyers. Clients are more than willing to pay a lawyer to draft documents and develop arguments – and less willing to pay for getting up to speed – so the faster a lawyer can get to that stage, the more opportunity they have to maximize profit while keeping their clients happy.

.....

William Josten, Esq.

Senior Legal Industry Analyst
651-244-4986
800-328-9378 ext. 44986

Thomson Reuters
william.josten@thomsonreuters.com
thomsonreuters.com

PRODUCT SPOTLIGHT:

Practical Law™ Canada

Practical Law Canada provides legal know-how that gives lawyers a better starting point. Our team of experienced lawyer-editors creates and continuously updates thousands of practical resources that help you practise more efficiently, improve client service and add more value.

Practical Law Canada does this through:

- Annotated Standard Documents and Clauses
- Practice Notes ranging from primers to expert analysis
- Checklists
- What's Market comparisons of recent deals and filings
- Provincial Q&As
- Resource Toolkits for comprehensive coverage of core legal issues

Practical Law Canada materials are rigorously edited and cross-checked to ensure they meet strict know-how and consistency standards, and continuously updated to keep up with legal, regulatory, and practice developments.

[Learn more here.](#)

