LAW CLERK

The Economics of a Law Firm

There's no doubt that law students graduate with an understanding of legal concepts and theories, but they don't always get practical advice on how to navigate the world outside of law school. In fact, it's not uncommon to hear a group of lawyers joke about all the things they didn't learn in law school!

While law school teaches the fundamentals of the law, it does not prepare lawyers for the practical aspects of the job such as how to run a business. From learning how to communicate effectively with clients and colleagues, networking in the business world, or understanding financial basics such as law firm budgeting, hiring and managing IOLTA accounts - these are all skills that lawyers need to thrive in their profession.

Since law school can't teach you everything you need to know about the reality of running a law firm, we've created this guide to the Economics of a Law Firm.

LAW **CLERK**

The Economics of a Law Firm

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PART 1: THE COSTS OF OPERATING A LAW FIRM

PAYROLL & BENEFITS

The salaries and benefits you provide for your team will likely be the most expensive line item on your firm's overall operating budget. Payroll costs can include salaries, bonuses, and other benefits such as health insurance or 401(k) contributions for all employees – not just the attorneys.

As with any business, it's important to accurately track and manage payroll expenses in order to ensure that the law firm remains profitable. This includes setting up systems to monitor employee hours worked, overtime pay, vacation time and sick leave accrual rates. It also involves staying on top of changes in state and federal laws regarding wages and benefits so that your law firm complies with all applicable regulations.

With proper management of payroll costs at a law firm, you can ensure that your business runs smoothly while keeping employees happy and productive. This can be important for recruiting and retaining top talent.

OFFICE & EQUIPMENT

In today's world, more firms are starting to become virtual law firms or adopting hybrid models. However, most attorneys will still require actual office space – real estate – to meet with clients or conduct depositions in person. Office space will need to be provided in some capacity for those aspects of legal work best done in person.

After payroll and benefits, the next leading cost for any law firm is typically office space and equipment. A key decision in setting up your firm's physical office will be deciding how much space you need. The good news is that the size of an attorney's office has decreased significantly over the last 20 years. Some firms opt to have all offices be the same size while other firms provide larger offices for partners. Certainly, the cost of the real estate market where you live and practice will impact the size and budget for your office space. To get an idea of how much office space could or should cost, do some research on rates in your local market and estimate how many square feet you will need based on headcount, reception area, conference rooms and storage.

While multiple employees used to be able to share larger equipment such as in-office printers, any work-from-home employee will now also need access to their own version of the equipment at home. At a minimum, a home office should include secure, fast Wi-Fi as well as a printer and scanner.

Hardware may include laptops, scanners, printers, paper goods and office supplies, office furniture, and a cell phone (with service coverage). These costs will easily range in the thousands of dollars for each attorney or employee.

Software may include access to your practice management software as well as any research accounts they need access to.

Litigation attorneys may need e-discovery tools. Transactional practice groups may need deal management software for their legal matters. Estate planning firms may need specialized drafting software for legal documents. These necessities can easily add up to around $2,500 per year per associate or more and are paid for by the law firm.

INSURANCE & BAR DUES

Attorneys need to be covered by malpractice insurance for the legal work they provide. Rates are typically around $2,500 to $3,500 per year per attorney according to ALPS, but can certainly be much higher. The annual rate for a policy can fluctuate depending upon practice area, experience level and state or location risk factors.

Be certain to revisit your firm's insurance needs with your carrier as your staff grows and changes. Find out if lawclerks, summer associates and/or paralegals are covered by your malpractice insurance.

A law firm also typically pays for the annual bar dues and continuing legal education requirements for all attorneys at the firm. These costs can vary from state to state, as the number of hours required vary across the country. In our experience, this can account for at least $1,000 per year per attorney.

In addition there can be local bars or specialty bars that an attorney may benefit from joining. Networking has been a huge challenge for new lawyers during the pandemic. However, now that many groups are resuming in-person meetings there can be immense personal and professional benefits to the law firm fronting the cost of these memberships.

MARKETING

How much you decide to budget for marketing will likely depend on factors such as your practice area, geographical market, the size and scope of your firm, goals and objectives, and current financial situation.

Different forms of marketing such as Search Engine Optimization (SEO), online advertising (social media and paid search), content creation, email campaigns or traditional print ads can all be useful in different scenarios. In general, however, it is important for law firms to plan carefully when deciding how much they should budget for marketing activities.

When determining your firm's ideal spending level on marketing activities such as website design or SEO, consider both short-term and long-term objectives. For example, a well-designed website that ranks high in organic search results may take time to achieve but will ultimately pay off with increased visibility and conversions over time. On the other hand, investing in digital ads may offer more immediate exposure but at a higher cost per click or impression than organic traffic sources like SEO or content creation.

RECENT RESEARCH

has found that total marketing budgets are between

6-14 %

of total revenue for most businesses

Recent research has found that total marketing budgets are between 6 to 14% of total revenue for most businesses and that B2Cs generally spend more on marketing compared to B2Bs. For law firms specifically, large-sized firms spend anywhere between 2-5% and smaller law firms between 5-10% of their gross revenue on marketing.

CALCULATING ROI

How can an attorney calculate the return on investment (ROI) for the marketing investment in their law firm? Here is one approach that can be replicated for other marketing channels. Let's say that you determine your average client generates $5,000 of monthly revenue for your firm. You also know that on average, your Google ad campaigns result in three new clients for your firm each month. Last, your average monthly budget for Google ads is $8,000. In this example, the cost of marketing on Google is $8,000 and the return is $15,000 for a net increase in revenue of $7,000 each month or $84,000 for the year.

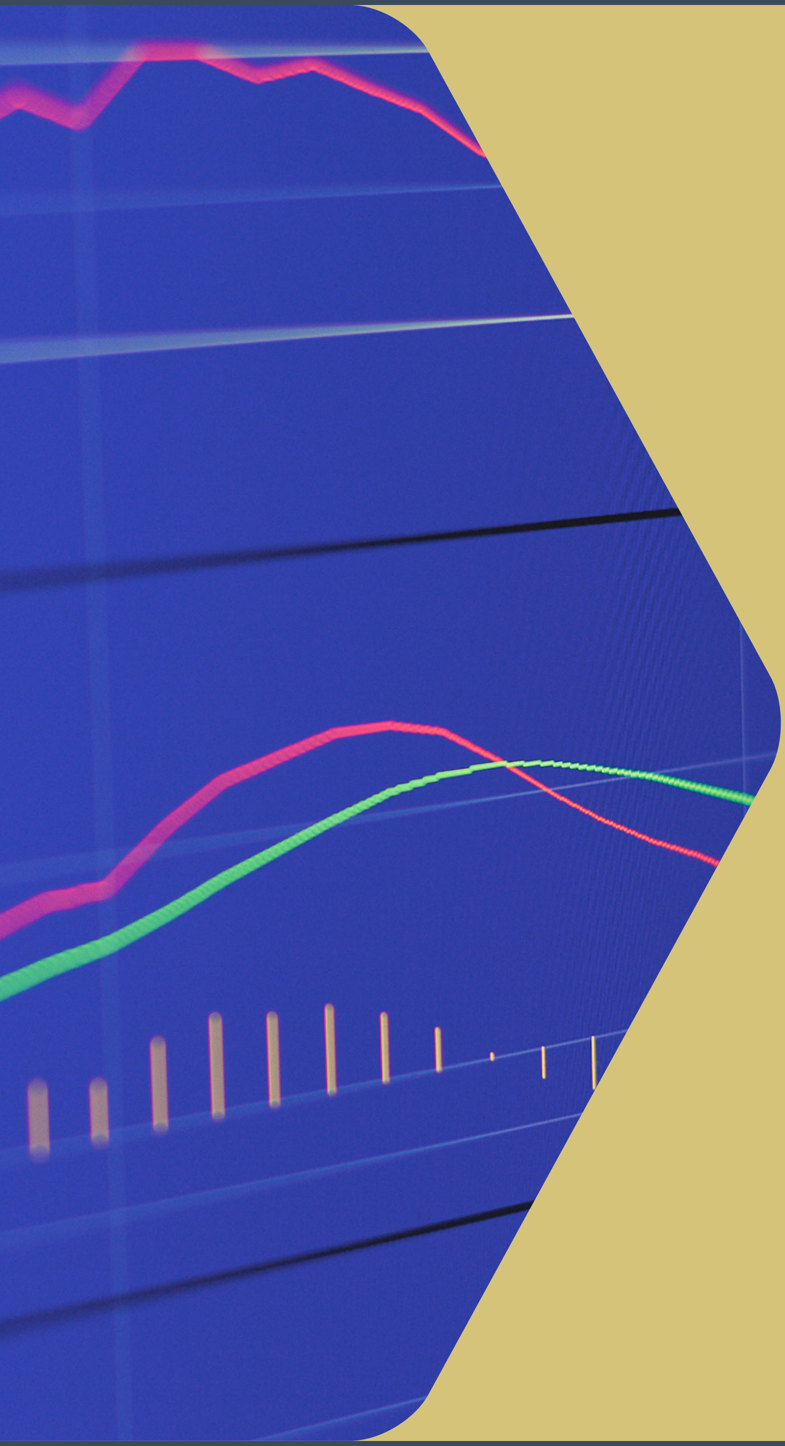
$5,000
Revenue generated by an average client

3
New clients gained from Google Ad campaign

$ $8,000
Average monthly budget for Google Ads

$$ $15,000
Return on Google Ads

$$$ $7,000/mo. or $84,000/yr.
Net increase in revenue



THE IMPACT OF INFLATION

Legal has not been immune to feeling the pain of the rise of inflation. It's hard to read a single new article in the past months that doesn't cite the rise of inflation.

The Bureau of Labor Statistics reports that the Consumer Price Index increased 8.5 percent for the year ending March 2022. In the following twelve months ending March 2023, the Consumer Price Index continued to rise but at a slightly less aggressive pace of 6.0%.

According to the ABA Profile of the Legal Profession 2022, over the past 20 years, the average lawyer's salary has grown faster than inflation. From 2001 to 2021, the average lawyer's salary rose 61%. Over the same period, the inflation rate was 49%.
However, in 2021 for the first time in 20 years, the average wage for lawyers dropped according to the U.S. Bureau of Labor Statistics. The average wage was $148,910 in 2020 and declined slightly to $148,030 in 2021 — a decrease of 0.6%, according to the BLS. Over the same period, inflation was 1.4%.

The bottom line is that we, as a legal profession, are feeling the pain of inflation in our household budgets and also in our law firm budgets. Everything seems to cost more these days. As a consequence, many legal professionals in turn are demanding higher salaries, more on that to follow.

PART 2: ATTORNEY ROLES IN A LAW FIRM

There are many roles for attorneys within a law firm. Lawyer stories in books, TV and movies often give very dramatic interpretations of what these roles mean in reality. What is a law firm partner? Is it better to be an equity partner or a non-equity partner? What does it mean to be 'of counsel' at a law firm? Let's explore:

PARTNER

What is a law firm partner? A law firm partner is a senior-level attorney who has typically worked at the firm for several years and has achieved a certain level of expertise and recognition within the legal community. The partner is responsible for managing the day-to-day operations of the firm, overseeing other attorneys and staff, as well as providing legal advice and representation to clients. Depending on whether or not they are an equity partner, the partner may have an ownership stake in the law firm. In addition to their management responsibilities, partners are often involved in business development activities, such as networking and marketing the firm's services.

EQUITY PARTNER

An equity partner in a law firm is a senior lawyer who has personally invested in the finances of the business and holds an ownership stake. Typically, they have many years of legal experience and have been with the firm for some time. Equity partners are responsible for managerial tasks such as setting policies and procedures, hiring staff, overseeing client matters, and sharing in the profits generated by the firm.

In order to become an equity partner, one must first prove their expertise and commitment to the firm by demonstrating strong business development skills, managing complex legal matters, and developing relationships with clients. Becoming an equity partner requires dedication to the legal profession as well as fiscal responsibility. Equity partners are expected to adhere to ethical guidelines and the highest standards of integrity. Besides providing guidance to younger attorneys, they also serve as role models and mentors in the legal profession.

Equity partners are typically rewarded with higher pay than associates or non-equity partners, but they must also bear a greater responsibility for risk associated with their decisions and actions. They may be expected to put their own money into the firm from time to time to cover debts or expenses. Equity partners should be able to handle complex legal matters, work with clients, and maintain the highest standards of professionalism.

Overall, becoming an equity partner in a law firm is a prestigious position that requires dedication, hard work and ethical behavior. It is a role that brings great professional satisfaction and financial rewards. Equity partners are an essential part of the law firm, responsible for providing legal direction as well as fiscal leadership.

NON-EQUITY PARTNER

A non-equity partner in a law firm is an attorney who has been selected to join the partnership structure of the firm but without having ownership or equity stake in the company. They are entitled to many of the same professional and administrative privileges as that of an equity partner, including access to clients and management roles. However, they do not gain any formal ownership in the firm or any share of its profits. Instead, they receive compensation for their services at a rate which is determined by the partnership agreement, typically higher than non-partners.

Non-equity partners usually have different roles and responsibilities compared to equity partners. They typically focus on providing legal services and advice, rather than actively managing the firm's business operations. In addition, non-equity partners usually do not have voting rights within the partnership structure.

Non-equity partnerships are a great option for attorneys who want to be part of a law firm without having to take on the financial and operational risks associated with being an equity partner. This type of arrangement can also be beneficial for lawyers who are looking for a more flexible work schedule or those who want to continue practicing law without taking full responsibility for managing the firm's operations.

Non-equity partnerships are becoming increasingly popular among law firms, as they offer a way for firms to attract and retain talented attorneys without necessarily incurring the financial risks associated with full equity partnerships. In addition, this structure provides an opportunity for attorneys who are not able to make the commitment of a full-time partnership position to remain actively involved in their chosen field of practice.

OF-COUNSEL

If you ask ten lawyers what an of-counsel attorney means, chances are you will get ten different answers. The American Bar Association has provided some guidance for what it means to be "of-counsel" in its Formal Opinion 90-357. The opinion provides four primary definitions of the term:

1. A part-time practitioner who practices law in association with a firm, but on a basis different from that of the mainstream lawyers in the firm. Such part-time practitioners are sometimes lawyers who have decided to change from a full-time practice, either with that firm or with another, to a part-time one, or who have changed careers entirely, as for example former judges or government officials, or attorneys who transition from corporate/in-house practice to law firm practice.
2. A retired partner of a firm who, although not actively practicing law, nonetheless remains associated with it and available for occasional consultation.
3. A lawyer who is, in effect, a probationary partner-to-be, usually brought in laterally with the expectation of becoming partner after a relatively short period of time.
4. A permanent status in between associate and partner, having the quality of tenure, or something close to it, but lacking an expectation of likely promotion to partner status.

An of-counsel attorney in a law firm is a legal professional who is generally not an employee of the firm but has a close working relationship with it. They are experienced and highly respected attorneys who have long-standing relationships with the firm's lawyers, allowing them to make significant contributions to their clients' cases.

Of-counsel attorneys are often used to supplement the expertise of a law firm. They may offer advice on complex legal issues or serve as an advocate in negotiations, court proceedings, and other matters related to the case. Additionally, they may help craft strategy for high profile cases or provide guidance on important decisions that could have lasting implications for the firm and its clients.

Of-counsel attorneys may also be called upon to provide advice on legal ethics, as well as assist in the development of legal documents and other important materials. Additionally, they can serve as a mentor to junior lawyers or act as an intermediary between different parties involved in a case. In some cases, they may also be called upon to provide additional resources and support when a law firm is facing an especially difficult case.

Ultimately, of-counsel attorneys play an important role in helping law firms stay competitive and ensure the best possible outcome for their clients.

ASSOCIATE

An associate attorney in a law firm is a lawyer who assists the more senior attorneys and partners in various types of legal matters. They are responsible for researching, drafting legal documents, such as pleadings, motions, briefs, contracts and other legal papers.

Additionally, they may provide legal advice to clients and represent them in court proceedings. While an associate attorney typically works under the direction of a senior partner or an experienced attorney, they also have some autonomy over their own caseloads. The duties and responsibilities of an associate attorney vary depending on the particular law firm or practice setting.

In most law firms, however, associate attorneys are expected to stay abreast of changes in the law and legal research techniques. They must also be organized and able to handle multiple tasks simultaneously. The ability to work independently and collaboratively with other members of the firm is essential in order to achieve successful outcomes for clients.

Professionalism, strong work ethic, excellent communication skills, strong writing ability and a thorough understanding of the law are all important qualities for an associate attorney.

CONTRACT ATTORNEY/LAWYER

The term "contract attorney" can mean a couple of different things. In perhaps the most literal sense, contract attorney is a lawyer who specializes in contracts, which are legally binding agreements between two or more parties. Contract attorneys review, create and negotiate contracts, ensuring that they are legally sound and protect the interests of their clients.

A"contract lawyer" can also be used in reference to a "freelance lawyer" or "remote associate." In this context, a contract attorney is a lawyer who provides legal services independently and on their own terms. They may work with a variety of clients, such as other attorneys, law firms, individuals, businesses, or organizations. Freelance attorneys typically offer services like document review, contract drafting and negotiation, research, and litigation support. They differ from traditional lawyers in that they are usually not employed by a law firm or government agency, and their rates and services can vary significantly.

PART 3: THE COST OF HIRING AN ASSOCIATE IN 2023

It's no secret that hiring a traditional law firm associate is expensive. In fact, the expense can be so intimidating that many solo attorneys and small firms delay hiring just to avoid the cost... despite the fact they desperately need help! Salary makes up a large chunk of law firm associate compensation but what other costs are involved?

SALARY

The National Association for Law Placement (NALP) compiles data on first-year associate starting salaries in the private sector of the legal industry. In their most recent report, NALP found that "the overall median first-year base salary as of January 1, 2023 was $200,000, up $35,000 (+21.2%) from 2021." This is a huge increase in a short time, especially as law firms have also been feeling the pain of inflation the past few years.

Now, perhaps you may think this 21.2% increase in associate attorney salaries is only for big law. This would be a smart, educated guess as the media has given a lot of attention to the so-called salary wars happening in big law the past few years. However, NALP addressed this and reported that despite much of the press coverage that has been focused on salaries in larger-sized firms, in terms of percentage growth, salaries were up the most in the smallest firms (which happen to comprise the largest sector of the legal industry).

In firms under 100 lawyers, the median first-year salary grew from $120,000 in the 2021 survey to $155,000 in 2023 (+29.2%) according to NALP. These pay increases cascaded from big law throughout the market at an accelerated pace. While it normally takes two or more years for big law salary raises to trickle down through the legal market it has happened much faster than pre-pandemic.

Another factor for associate salaries is your specific geographical market. Whether you're a big law firm in New York or a small one in the Midwest will also factor into how to calculate compensation for a law firm associate. Starting salaries for entry-level lawyers can vary greatly in different regions of the country.

NALP reported that across 26 different cities, there is a wide range of median first-year salaries ranging from $145,000 to $215,000. Eleven U.S. cities now have a median starting salary of $215,000. These include Austin, Boston, Chicago, Dallas, Houston, Los Angeles/ Orange County, New York City, San Diego, San Francisco, Silicon Valley, and the Washington, DC area.

Starting salaries for lawyer jobs can also vary based on your practice area. Firms that specialize in areas such as intellectual property or commercial litigation may pay different starting salaries than personal injury or family law firms.

Experience is another factor that needs to go into how much you should expect to pay a full-time associate attorney. If you are hiring a fifth-year attorney, you should of course expect to pay them more than a first-year associate. NALP reports the median salary for a first-year associate is $200,000, while the median for an eighth-year associate is $307,500 as of 2021.

Despite the rise in salaries, associate turnover rates for law firms also reached record highs. The on-going war for talent is creating a vicious cycle of salary increases and turnover that is simply not sustainable for a successful, modern law firm business model. Law firms need to start thinking about alternative staffing models to help supplement their capacity and represent their clients adequately.

MEDIAN BASE SALARIES BY ASSOCIATE YEAR AND FIRM SIZE

(IN $/YEAR UNLESS OTHERWISE NOTED, AS OF JANUARY 1, 2023)

SOURCE: NALP 2023 ASSOCIATE SALARY SURVEY

FIRM SIZE – Number of Lawyers

	100 or Fewer		101-250		251-500		501-700		701-1,000		1,001+		All Sizes	
Associate Year	Median	# Rept	Median	# Rept	Median	# Rept	Median	# Rept	Median	# Rept	Median	# Rept	Median	# Rept
First	$155,000	29	$160,000	78	$190,000	64	$200,000	83	$200,000	160	$215,000*	160	$200,000	522
Second	$165,000	27	$170,000	74	$195,000	67	$207,500	87	$209,000	162	$225,000	162	$209,000	511
Third	$180,000	27	$180,000	71	$207,500	66	$215,000	86	$220,000	168	$250,000*	168	$220,000	510
Fourth	$181,250	24	$195,000	69	$239,025	64	$230,000	85	$255,000	164	$285,000	164	$245,000	505
Fifth	$192,500	22	$200,000	73	$243,325	66	$255,000	86	$280,000	161	$315,000	161	$265,000	502
Sixth	$193,450	24	$210,000	73	$245,000	64	$265,000	86	$290,000	162	$355,000	162	$280,000	502
Seventh	$210,000	24	$225,000	68	$286,250	64	$275,000	95	$303,750	160	$387,500	160	$295,000	501
Eighth	$213,950	20	$217,775	68	$235,000	49	$300,000	76	$310,000	149	$395,000	149	$307,500	450

TRAINING

Unfortunately you don't learn everything you need to know to be a lawyer in law school. So if you're planning to hire a new lawyer fresh out of law school, you'll also need to factor in training time and costs. And by "time," that likely means your time. Teaching a young attorney all the practical industry knowledge, best practices, firm standards, and tricks of the trade they need to know to perform well is in your best interest, but it's time consuming.

Mentoring a new associate is a serious time commitment. You need to dedicate time every week, perhaps even every single day, to supervise their work as well as give practice and legal advice.

This can turn into a huge expense that many attorneys easily become frustrated with — because while you may feel like you're investing in a long-term hire, it's possible that you could spend a lot of resources training an employee who ends up leaving you to go work for a competitor. Then you have hundreds of hours of your own billable time down the drain.

Conversely, if you hire a more senior associate, they may bring bad habits or simply different work standards with them. Even if you don't have to teach experienced attorneys the ground-level basics, you'll still need to help them unlearn any bad habits and/or adjust to your firm's way of functioning. And if that isn't an easy transition, you may find yourself picking up the slack during the training period.

BENEFITS

Besides salaries, benefits can add up quickly in the legal industry. According to the U.S. Bureau of Labor Statistics, as of December 2022, 31% of employee costs to employers were related to benefits. While the average per hour cost of an employee was $42.48, benefits accounted for $13.17 (31%) of that cost while wages/salaries accounted for $29.32 (69%). This means that whatever the employee's salary is, you could need to add another 30% or more to cover the cost of their benefits.

Then there's retirement, which is typically 2% to 6% in matching contributions from an employer. If you have a first-year new hire at the median salary rate of $165,000, that's another $3,300 to $9,900 per year for retirement for that associate. As of December 2022, the BLS reported that retirement costs accounted for 3.4 percent of total compensation costs.

Health insurance is another large expense of hiring a traditional associate. According to the 2022 Milliman Medical Index, the cost of healthcare for a typical American family of four covered by an average employer-sponsored preferred provider organization (PPO) plan is $30,260. The Kaiser Family Foundation reports that as of 2021, employers paid 73% of the annual premium to cover a family of four.

The benefits list is seemingly endless. Other benefits to consider when calculating the cost of hiring an associate include dental insurance ($1,500 to $4,500), disability insurance ($2,000 to $5,000), life insurance ($250 to $500), employer contributions to FICA (7.65% of salary, which at $165,000 would be another $12,623). None of this includes other possible benefits such as unemployment insurance, tuition reimbursement, student loan benefits, financial wellness benefits, and any other voluntary benefits which might be standard for your law firm to provide to associates (think commuter benefits, gym memberships, etc.).

MALPRACTICE INSURANCE

An associate is also going to need to be covered by malpractice insurance for the legal work they provide. Rates are typically around [$2,500 to $3,500 per year according to ALPS](), but can be much higher. The annual rate for a policy can fluctuate depending upon practice area, experience level, prior claims and state or location risk factors.

Be certain to discuss your firm's insurance needs with your carrier as your staffing grows and changes. Find out if law student clerks, summer associates and/or paralegals are covered by your malpractice insurance.

BAR DUES & CLE

The employing law firm also typically pays for an associate's annual bar dues and continuing legal education expenses. These costs can vary from state to state, as the number of hours required vary across the country. In our experience, this can account for at least $1,000 per year per associate.

In addition there can be local bars or specialty bars that a new associate attorney may benefit from joining. Networking has been a huge challenge for new lawyers during the pandemic. However, now that many groups are resuming in-person meetings there can be immense personal and professional benefits to the law firm fronting the cost of these memberships.

UNDER-UTILIZATION

It's natural that the workflow of a law firm will ebb and flow. Sometimes you're drowning in work. Sometimes you're waiting for the next new client to call.

These peaks and valleys in workflow also hold many law firms back from making a full-time hire. No one wants the stress of having to make payroll to an associate who isn't producing billables when the cashflow has dried up.

The [2020 Altman Weil Law Firms in Transition report] found that 84.4% of surveyed law firms reported having chronically under-performing lawyers. Further, the report found that in nearly a quarter of all law firms, more than 10% of lawyers were considered to be under-performers.

Can your law firm really afford an underperforming associate? Carefully consider your workflow pipeline before committing to a full-time hire.

THE BOTTOM LINE

When you tally up all of these expenses, and keep in mind these could be less or more depending on your specific market and area of practice, the all-in cost to hire a first year associate is likely around $296,600.

ASSOCIATE COST – 1ST YEAR ASSOCIATE

Salary	$200,000
Benefits – Health Insurance (31% of salary)	$62,000
Retirement Contributions (3.4% of salary)	$6,800
Disability insurance ($2,000 to $5,000)	$3,500
Life insurance ($250 to $500)	$500
Employer contributions to FICA (7.65% of salary)	$15,300
Malpractice Insurance	$3,000
Bar Dues & CLE	$1,000
Computer & Office Supplies	$2,000
Software subscriptions	$2,500
GRAND TOTAL	**$296,600**

If your goal is to generate $200,000 of profit for the firm from hiring this first-year associate, then their work needs to bring in revenue totaling $496,600. This would mean if the associate is expected to bill and collect 1,800 billable hours, their hourly rate would be calculated as $496,600 / 1,800 hours = $275 per hour. An hourly rate of $275 may seem much too high or much too low depending on your practice area and reasonable market rates in your location. You should consider a similar analysis as you carefully plan out your next associate hire.

HIRING OPTIONS

Now, it is important to keep in mind that there are other more affordable, accessible and flexible hiring options for attorneys. Working with a contract lawyer aka freelance lawyer aka remote associate can be a smarter staffing solution than a full-time associate for a lot of reasons.

First, freelance attorneys don't have overhead costs tied to them. There are no benefits, insurance, equipment, or salaries to commit to when hiring a freelancer, and the freelancer will only work when you need them to.

So if you don't have as much work in any given month, you'll have no overhead as you would an employee. No salary, health insurance, retirement, or other benefit costs.

Another benefit is that working with a remote associate often allows you to connect with a seasoned lawyer who can do the legal work without training or hand holding. You – and your client – can benefit from the attorney's years of experience.

Last, you don't have to worry about the natural fluctuations in your work volume. If you aren't busy, don't send any work to the freelancer. If you are slammed, you can connect with multiple freelance attorneys to get the immediate help you need.

PART 4: MANAGING FINANCES FOR A LAW FIRM

When you're running a law firm you must manage the firm's finances and most likely also client funds. Unlike other businesses, law firms must adhere to strict regulations regarding the handling of client funds. Lawyers are required to maintain separate trust accounts for unearned client funds, which must be kept in accordance with state-specific rules and regulations

SAFEGUARDING CLIENT FUNDS

These regulations ensure that client funds are protected and used only for their intended purpose. However, they also add an additional layer of complexity to managing the finances of a law firm. In order to maintain compliance, law firms must have a solid understanding of accounting principles and the ability to keep accurate records.

Furthermore, law firms must also consider the financial implications of other aspects of their operations, such as employee salaries, office rent, and other overhead expenses. In order to operate profitably, a law firm must balance its income with its expenses while also investing in its future growth. This requires careful financial planning, budgeting, and a close watch on the firm's cash flow.

In the sections that follow, we will explore the economics of a law firm in depth, including best practices for managing finances, common financial challenges faced by law firms, and strategies for achieving long-term financial success. By understanding the unique financial considerations of a law firm, legal professionals can build a solid foundation for their business and achieve their financial goals.

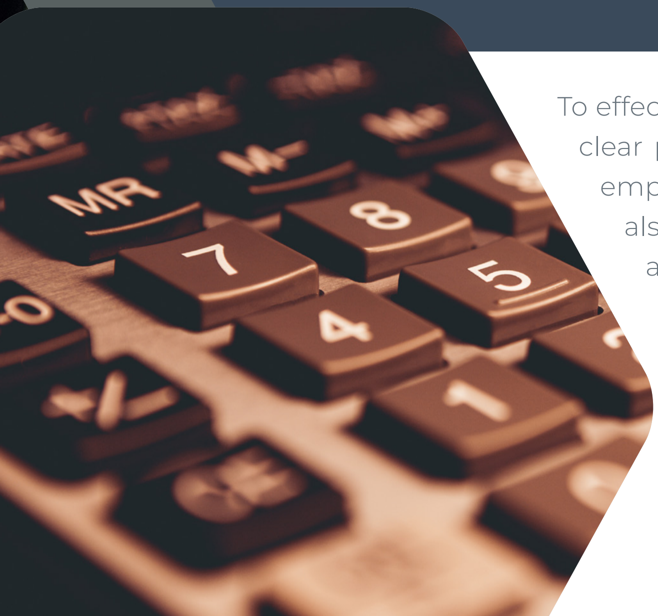
IOLTA ACCOUNTS

IOLTA accounts, or Interest on Lawyer Trust Accounts, play a critical role in managing the finances of a law firm. These accounts are specifically designed to hold client funds, such as retainers, settlement checks, and court fees, and ensure that money is kept separate from the firm's business account. The purpose of an IOLTA account is to protect client funds and prevent them from being used for the law firm's operating expenses or the personal expenses of the lawyer.

In some cases, law firms may set up separate trust accounts for individual clients, but this is usually not feasible for smaller payments. IOLTAs were established in the 1980s to allow lawyers to pool smaller payments and short-term funds from multiple clients in a single interest-earning trust. Unlike other types of accounts, attorneys cannot profit from the interest earned on an IOLTA account. Instead, the interest is directed toward state bar associations to fund legal assistance for low-income clients and other charitable causes.

IOLTA accounts are used when a law firm accepts payments for retainers from clients or handles money on a client's behalf. Depending on the state's regulations, it may or may not be mandatory to use an IOLTA account to hold unearned client funds paid as a retainer. However, it is always essential to keep client funds separate from the law firm's operating account to maintain compliance with ethical and legal requirements.

Managing IOLTA accounts can be complex, as there are strict rules that must be followed to ensure that client funds are protected. Even a large firm with a dedicated accounting team must take deliberate steps to maintain IOLTA compliance, and smaller firms must be even more careful since small mistakes can have serious consequences. It's important for lawyers to be diligent in managing IOLTA accounts, as they are responsible for any misuse of funds, even if the mistake is made by a third party, like an employee or bookkeeper.



To effectively manage IOLTA accounts, law firms should establish clear procedures for handling client funds and ensure that all employees and partners are aware of these procedures. It's also important to regularly review IOLTA account balances and promptly address any discrepancies.

Finally, lawyers should consider using software tools designed specifically for IOLTA account management. These tools can help automate many of the processes involved in managing IOLTA accounts, reducing the risk of errors or mistakes.

RETAINER ACCOUNTS

Retainer accounts are an important tool for law firms, providing a way for clients to secure legal services and for lawyers to guarantee payment. There are three main types of retainers that law firms can use:

1. General retainers
2. Security retainers
3. Flat fees or advance payment retainers

General retainers are designed to secure a lawyer's availability for a matter or for a particular period of time. They are typically non-refundable and serve as a guarantee that the lawyer will be available when needed. Security retainers, on the other hand, secure the client's payments for future services, with the lawyer drawing from the funds as work is completed. While security retainers are the most commonly used, they are also the most complicated to manage. Lastly, flat fees or advance payment retainers function as a complete up-front payment in anticipation of legal services to be completed in the future.

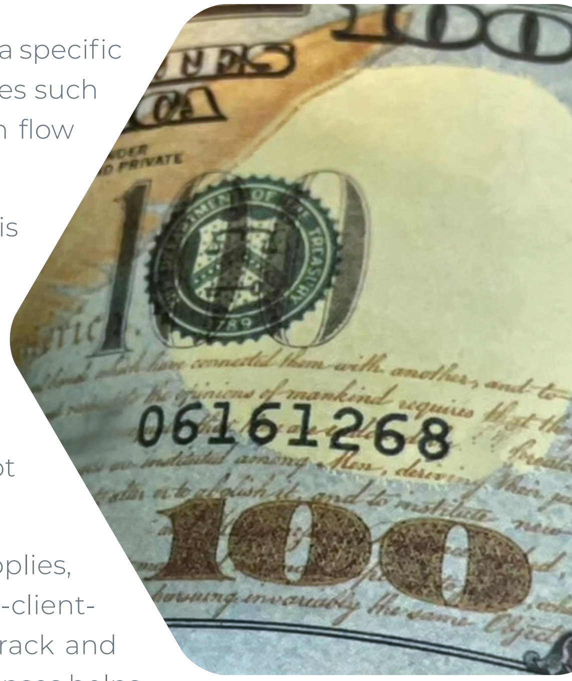
When crafting any retainer agreement, clarity is essential. It is crucial for law firms to clearly delineate their billing process to offer transparency and prevent confusion. While a certain level of standardization is practical, avoid generic agreements that are vague or unclear. When managed correctly, retainer agreements can minimize the risk of nonpayment and ensure that clients receive the legal services they require. A best practice is to review and revise your retainer agreement at least annually.

Law firms should keep matter-centric records to allow funds to be tracked in a ledger format, which helps prevent the commingling of funds. It is also vital to monitor Work-in-Progress (WIP) reports. As a retainer reaches a pre-determined low point, the person in charge should notify the necessary parties to seek replenishment. This ensures that funds are always available to cover the costs of legal services so that you and your team will be paid timely.

OPERATING ACCOUNTS

While IOLTA and retainer accounts are strictly for client funds, a law firm also needs an operating account to manage the day-to-day finances of the business. The operating account is where the firm's capital and cash flow come into play.

An operating account is used for day-to-day expenses like office supplies, rent, insurance, payroll, software, marketing, and other non-client-related costs. One key to managing the operating account is to track and categorize expenses. Keeping detailed and accurate records of expenses helps in budgeting and forecasting future expenses. Using accounting software can help simplify the process of managing an operating account, as many software programs help with tasks such as invoicing, tracking expenses, and generating financial reports. It's important to choose accounting software that is specifically designed for law firms, as this can help ensure compliance with regulatory requirements.



Cash flow is the net balance of cash moving in and out of the firm at a specific point in time. This is the money needed to pay for monthly expenses such as rent, salaries, utilities, and other overhead costs. A positive cash flow means the firm has more money coming in than going out.

Capital is the cash that the firm invests to make more money. This includes stocks, bonds, funds held in deposit accounts, and other assets. Law firms can also access debt capital via credit cards, bank loans, and other forms of credit. In some cases, a law firm may need to secure a line of credit to manage cash flow during periods of low revenue. The equity partners can also be tapped to make capital contributions to the firm if cash reserves are not sufficient to cover expenses.

An operating account is used for day-to-day expenses like office supplies, rent, insurance, payroll, software, marketing, and other non-client-related costs. One key to managing the operating account is to track and categorize expenses. Keeping detailed and accurate records of expenses helps in budgeting and forecasting future expenses. Using accounting software can help simplify the process of managing an operating account, as many software programs help with tasks such as invoicing, tracking expenses, and generating financial reports. It's important to choose accounting software that is specifically designed for law firms, as this can help ensure compliance with regulatory requirements.

SAFETY PRECAUTIONS TO PREVENT THEFT OR MISAPPROPRIATION OF FUNDS

It's critical to protect a law firm's funds from theft or misappropriation. Law firms are particularly vulnerable to employee theft due to the sensitive and confidential nature of their work. Employee theft is a serious problem that can lead to significant financial losses for a company.

The types of employee and attorney crimes that typically hit law firms include manipulation of financial statements, falsified billings, manipulated time records, and invoice kickbacks. In fact, a 2019 report by the Association of Certified Fraud Examiners found that the median loss suffered by law firms due to occupational fraud was $110,000. Thus, it's incredibly important for law firms to implement robust measures to prevent employee theft and fraud.

HERE ARE SOME SAFETY PRECAUTIONS THAT LAW FIRMS CAN TAKE TO PREVENT THEFT OR MISAPPROPRIATION:

1. Know your employees. Be alert to potential signs of theft, such as sudden changes in behavior, lifestyles above salary levels, and compulsive gambling. Background checks are recommended for employees who will handle money or financial records.
2. Supervise employees closely. Having more than one person overseeing financial matters can help prevent fraud. Have the accounts manager circulate a billing report of deposits and payments daily and compare with bank records. It is also a smart practice to require more than one signature for any checks over a certain dollar amount.
3. Use informal audits. Regularly conducting unannounced internal audits can detect potential theft. These can be time consuming so outsourcing the audit to a qualified third party is a smart move.
4. Install computer security measures. Protect computer systems and software from unauthorized access and update passwords regularly.
5. Monitor accounts receivable. Establish clear procedures for invoicing and collections and separate the functions of mail opening and posting.
6. Anti-fraud training. Teach employees how to prevent crime in the workplace. Also, teach managers the warning signs that employees may be committing fraud and the importance of adequate employee supervision.
7. Offer anonymous reporting. Create a system that allows employees to report suspicious activity anonymously and confidentially.
8. Office security measures. Install advanced security and surveillance systems for offices and other facilities to deter employee crime.
9. Maintain a positive workplace. You can discourage employee theft by offering fair compensation, treating employees well, and creating a positive working environment.

While these safeguards can reduce the risk of employee theft and fidelity, crime insurance is also recommended. This type of insurance can help minimize potential losses due to criminal activity.

Finally, if you suspect employee theft, you should be careful about making accusations and conducting investigations. Verify any suspicions by conducting a thorough investigation and determine the extent of fraud and the methods used. Outside legal counsel may be necessary in complex cases.

SETTING REVENUE GOALS & MANAGING CASH FLOW

As a law firm owner, it's important to set revenue goals and manage cash flow effectively to ensure your business's long-term success. One key strategy is to maintain cash reserves that can cover at least three months of operating expenses for both your firm and household.

To positively impact cash flow, consider decreasing your accounts receivable and work in progress by invoicing clients as soon as possible and collecting the amounts owed promptly. Be wary of clients who don't pay on time and know when to part ways with problem clients (more on that later). Adjusting accounts payable by negotiating longer payment terms with vendors can also help.

RECESSION-PROOFING YOUR FIRM

In times of economic uncertainty, law firms need to take proactive steps to recession-proof their operations. While it can be challenging to predict when a recession will occur, taking measures to prepare in advance can help a law firm weather the storm and even come out stronger on the other side.

First, consider embedding payment processing directly into your platform to make it easier for clients to pay you. New practice management software features, such as payment links in portals and payment reminders via text, can help boost your collections.

Second, consider automating administrative tasks through practice management software, as this can free up more of your time for billable work. Improve your firm's efficiency and productivity by streamlining processes, eliminating bottlenecks, and leveraging technology to accomplish more. Also, focus on providing speedy client service to stand out during an economic downturn. Responding quickly to clients' needs can help you retain existing clients and attract new ones.

Lastly, make it easier to onboard new lawyers in preparation for potential job movement during economic volatility. By following these tips, you can help ensure your law firm's financial health even in challenging economic times.

For more on the topic of recession proofing your firm, check out our guide.

CONDUCT REGULAR BUSINESS MEETINGS

Regular business meetings are an essential component of running a successful law firm, even for solo attorneys. There are several compelling reasons for holding these meetings, including fostering collaboration and effective teamwork among lawyers and staff. Meetings provide a forum for open communication and allow everyone to share important updates, discuss projects, and address any concerns or issues that may arise.

Additionally, regular meetings can help with planning and setting goals for the firm, ensuring that everyone is aligned on the firm's priorities and identifying areas that need improvement. Meetings also promote accountability by providing a platform for managers to follow up on tasks and ensure they are completed on time and to a high standard.

Even if you are the only employee at your firm set aside time for you to focus on the business aspects of your firm. It is all too easy to get stuck in the rhythm of only doing the legal work and ignoring the work that needs to be done to grow your business.

TIPS FOR EFFECTIVE MEETINGS

Conducting effective meetings in a law firm requires careful planning and execution. One of the most important steps is to prepare an agenda that outlines the topics to be discussed and the order in which they will be addressed. This helps keep the meeting focused and on track. It's also wise to invite only those people who need to be there, to avoid wasting anyone's time. Starting and ending the meeting on time is another critical way to respect everyone's time and keep the meeting on track. Remember – time is money!

Encouraging participation from all attendees is also important to ensure everyone's opinions and ideas are heard and considered. Assigning action items to specific people at the end of the meeting and setting deadlines for completion helps ensure that progress is made and that everyone is held accountable.

Following up after the meeting with a summary of what was discussed, and the assigned action items helps confirm that everyone is on the same page and knows what is expected of them.

PART 5:

BUSINESS PLAN: WHY ALL LAWYERS NEED ONE

Business plans serve as a firm's roadmap. By defining goals and objectives, lawyers can create a clear path for their practice's growth and success. This roadmap can be used to measure progress and adjust the course as needed.

Moreover, a business plan can help lawyers identify potential challenges and opportunities in the market. By conducting a market analysis and identifying trends, lawyers can adapt their practice to meet the needs of their clients and stay ahead of the competition. This can lead to increased revenue, more satisfied clients, and a stronger reputation in the legal community.

A business plan also helps lawyers stay focused and accountable. By creating a set of goals and objectives, lawyers can track their progress and hold themselves accountable for meeting their targets. This can help them stay on track and avoid getting sidetracked by distractions or competing priorities.

Finally, a business plan can help lawyers secure financing. By creating a comprehensive plan that outlines a strategy and financial projections, lawyers can demonstrate their business acumen and attract the capital they need to grow their practice.

HOW TO CREATE A BUSINESS PLAN

Crafting a business plan for your law firm requires careful consideration and attention to detail. It is not just about putting your ideas on paper but rather a process that requires creative and analytical thinking to develop a solid plan for your practice. A good business plan takes time to develop and should be treated as a living document that changes and evolves with your practice.

There is no set way to compose a business plan, but generally, the best business plans follow a particular structure.

1 - SUMMARY

The plan should start with a summary section highlighting your practice and experience, giving an overview of your past achievements and expectations for your practice over the next few years. This section should be concise and include eye-catching details such as significant cases you have won.

2 - STRATEGY

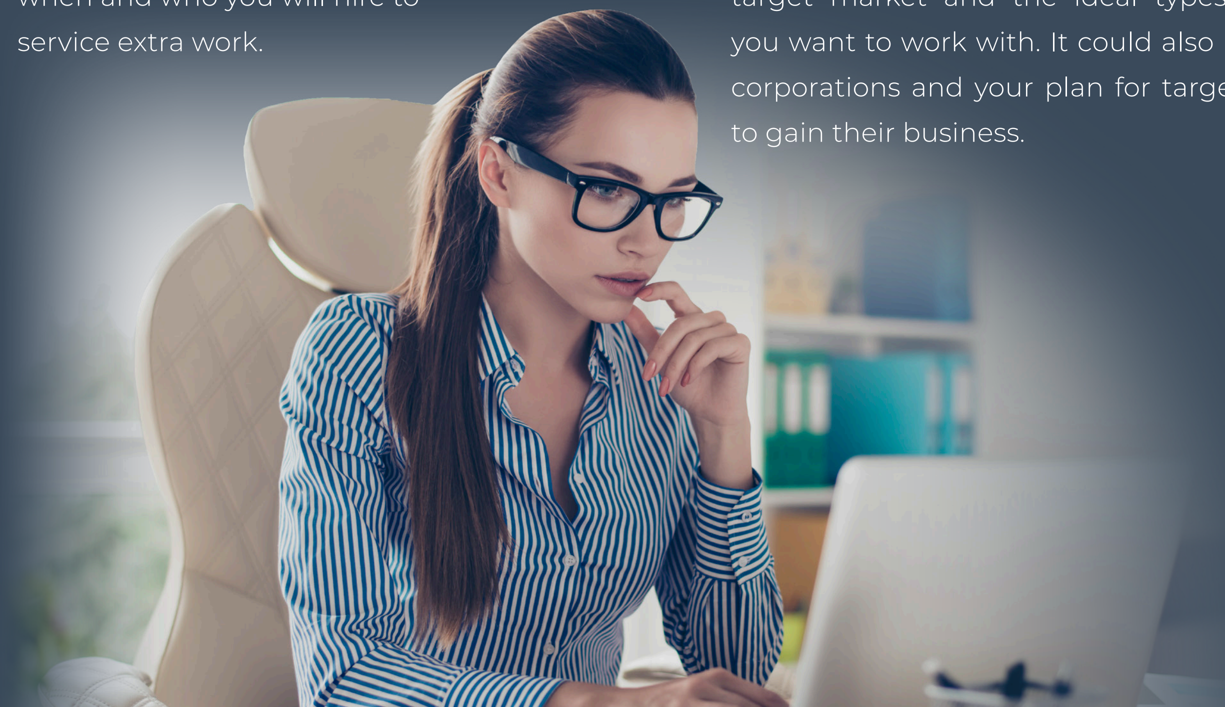
The strategy section of the business plan should outline your vision for your practice. Provide clarity and detail, including current market trends. Also, forecast future trends to synthesize a strategy that accounts for potential growth or decay in your practice. It should also identify when and who you will hire to service extra work.

3 - REVENUE PROJECTION

The revenue projection section is perhaps the most challenging yet arguably the most important. In this section, it is important to break down your work by category, project revenue while justifying any projected growth, set goals for the number of clients and the revenue you expect to generate, and determine your pricing model and the number of cases or matters you can handle.

4 - MARKETING PLAN

The marketing plan section should include a market analysis across all of your different specialties, identifying trends in the market to anticipate legal demand. It should explore your target market and the ideal types of clients you want to work with. It could also list specific corporations and your plan for targeting them to gain their business.



PART 6:

DO YOU REALLY NEED A BRICKS AND MORTAR LAW OFFICE?

These days having a brick-and-mortar law office is no longer a strict necessity. With the availability of various technologies and virtual communication tools, lawyers can now work remotely while still providing excellent legal services to their clients.

The decision of whether or not to have a physical office depends on the preferences and business model of the individual lawyer. While it may be advantageous in certain situations, having a physical office is not a prerequisite for delivering high-quality legal services in today's digital age.

ADVANTAGES OF A VIRTUAL PRACTICE

While having a physical office can be beneficial, virtual law offices can save lawyers a ton of money on rent, utilities, and maintenance costs.

Working remotely also allows for more flexibility in scheduling, and lawyers can communicate with clients through video conferencing and other online tools which often better accommodate the clients' needs.

With virtual law offices, lawyers can work with clients from anywhere in the world, making it easier to expand their client base and work with clients in different time zones. Additionally, the cost savings from a virtual law office can result in more profits for the firm, which is a strong incentive for many to consider transitioning to a virtual practice.

WHERE DO LAWYERS WANT TO WORK?

While it's hard to predict where most lawyers want to work, there are several factors that tend to influence these decisions. One of these factors is the economic and business climate in different regions of the country. Regions with more job opportunities and a higher demand for legal services could attract lawyers.

Lifestyle preferences also impact lawyers' choices. Some may prefer to work in bustling urban areas with a high concentration of legal firms, while others may prefer a quieter suburban or rural environment. The pandemic has also shifted expectations for remote work and reduced commuting, which may affect lawyers' preferences for a physical office. Ultimately, many lawyers are looking for a better work-life balance, and this is often enhanced by offering remote work options

WHERE DO CLIENTS WANT TO MEET?

When it comes to meeting with lawyers, clients have varying preferences and circumstances. Some clients may still be attracted to the shiny objects of a fancy law firm, wanting the experience of meeting in person at the firm's office or another high-end location.

Others may prefer the convenience of virtual meetings via video conferencing tools, particularly those who live far away or have busy schedules. Some clients may prefer phone calls for quick updates or urgent matters, while others may opt for email communications for non-urgent matters or to document their conversations. Lawyers need to be flexible and responsive to their client's communication preferences, providing multiple options for meeting and communicating to improve the client's overall experience and satisfaction. Have your team ask about the client's preference when scheduling meetings. If you use a digital calendar scheduling tool, you can set those up to include a variety of options for the client to select.

PART 7:
PRICING STRATEGIES TO MAXIMIZE PROFITS IN A LAW FIRM

If you're like most lawyers, you likely have a "love hate" relationship with the billable hour. It is definitely a great way to generate revenue, but tracking every minute of your day can be a drag.

Selling your time and charging by the 1/10th of an hour has been the backbone of the law firm model for decades. Today's legal clients are growing ever more sophisticated in their understanding of the business of law, billing models and how their interests sometimes compete with the financial interests of their counsel.

More and more clients are negotiating (or even demanding) alternative fee structures. In turn, law firms are working to find more efficient ways to deliver legal services to remain competitive and still generate revenue. If you've thought about moving away from the billable hour, here are nine alternative fee arrangements to consider:

FIXED FEES
A set price for a single engagement/matter with a limited (and well-defined) scope of services;

PORTFOLIO PRICING
A fixed fee (per matter) for a large number of matters from a single client who provides a high volume of work;

FEE CAPS
Hourly rates for a defined matter subject to a maximum fee (in my opinion, the worst model lawyers can adopt);

MONTHLY RETAINERS/ SUBSCRIPTION
A fixed fee that a client pays on a periodic basis (usually monthly and upfront) for a well-defined scope of services;

MENU PRICING
A fixed menu of services and corresponding prices for segments of a particular matter in which the client selects the scope of services a la carte;

CONTINGENCIES
Outcome-based fee structure, which has been widely used in personal injury and other plaintiff's work;

SUCCESS FEES
A lump sum fee paid at the end of a matter based upon a well-defined "successful outcome," often combined with a hybrid fee;

HYBRID FEES
Usually a combination of discounted hourly billing with either a partial contingency fee or success fee;

COLLARED BILLING
A billing arrangement in which the lawyer provides a budget, and the client pays a bonus if work is completed under budget or receives a discount if work exceeds the budget.

Each of these billing arrangements has pros and cons. The common thread among these models is the ability to measure value to the client in a way that isn't based upon time. And while there is no one size fits all model for your practice and your firm, find a way to avoid measuring your output as a timekeeper. Instead, find or create a business model that leverages your individual knowledge and work product in a way that compensates you for the value you drive to your clients not the hours you work.

PART 8: FOUR THINGS YOU REALLY SHOULD OUTSOURCE

Anyone who has ever started a new law firm knows that in the early days of your business you will likely wear a lot of hats and do a lot of tasks yourself. Answer the phone? Yep! Process the mail? Yep! Draft a motion? Definitely.

However, there will come a point in the evolution of your law firm where it is no longer wise for you to do everything yourself. In fact, you will start to learn the true value of your time and where your time is best spent.

If you're feeling stretched on time and not sure where to start with delegating, here are four things to consider:

THE BIG FOUR

TIPS & TRICKS

#1 MARKETING

Many lawyers quickly realize they don't want to be the driving force for the various marketing aspects of their firm. In fact, the LawPay and MyCase 2022 Legal Industry Report found that 52% of respondents outsourced website development, 53% outsourced website maintenance and 35% outsourced email marketing.

It can take a lot of time to manage your firm's social media, write blogs, and evaluate SEO. Unless you enjoy the creative outlet this work can provide, this is one area that can easily be outsourced.

#2 TALKING ON THE PHONE

Now you can't avoid talking on the phone 100% but you can reduce how much time you spend on the phone for administrative work. If you don't want the fixed cost of a full time receptionist, explore phone answering services – many of which specialize in legal phone service.

Virtual receptionists can help screen potential clients and even schedule meetings for you. They can even make outbound calls for tasks like confirming meetings or asking clients to send certain documentation.

#3 ACCOUNTING

Opening mail, logging payments, making deposits and paying bills all take time. Many attorneys opt to outsource these functions and supervise the work which takes significantly less time – especially once the safeguards we mentioned are put into place.

The LawPay and MyCase 2022 Legal Industry Report found that 33% of survey respondents outsourced accounting functions. There are many ways to get that type of help for your firm either through full-time, part-time our outsourced solutions such as billing managers or part-time CFO's.

#4 THE LAWYERING

Many attorneys joke that they wish they could outsource the lawyering part of running a law firm. The good news is that you can delegate most – if not all – of the time-consuming parts of substantive legal work.

With services like LAWCLERK, you can hire another lawyer full-time or part-time via our Subscription Associate program. You can also hire as-needed via our hourly or project options– whatever fits your needs! You can leverage the time and talent of other lawyers to perform work like legal research, discovery and of course drafting documents. You can also work with other attorneys for appearance work as needed.

There are countless resources out there so don't hesitate to hire the help you need to power your firm.

PART 9:
TAX CONSIDERATIONS FOR ATTORNEYS WHO RUN THEIR OWN LAW FIRM

As an attorney running your own law firm, you are not only responsible for providing excellent legal services to your clients, but also for managing and growing your business. One of the aspects of running a law firm that many attorneys find challenging is dealing with taxes. Understanding tax laws and regulations can be overwhelming, not to mention time-consuming. However, it is critical to ensure that your firm's finances are in order and that you are taking advantage of all the tax benefits available to you as a business owner.

KEEP ACCURATE RECORDS

The first step for managing the tax aspect of your business – your law firm - is to maintain accurate financial records. Keep track of all your expenses, including office rent, utilities, supplies, and professional services, such as accounting and marketing. Also, keep track of your revenue by recording all payments received from clients.

Having a detailed record of your financial transactions will enable you to track your income and expenses and will make it easier to file your tax returns. Many practice management systems can assist with all of these functions.

CHOOSE THE RIGHT BUSINESS ENTITY

The type of business entity you choose for your law firm will have significant tax implications. The two most common business entities for law firms are a sole proprietorship and a limited liability company (LLC).

A sole proprietorship is the simplest entity structure, but it offers no liability protection. An LLC, on the other hand, provides liability protection for your personal assets, but it is subject to more complex tax rules. It's critical to consult with a tax professional and an attorney to determine the right business entity for your law firm.

TAKE ADVANTAGE OF DEDUCTIONS

Have you seen the hilarious scene in the TV show "Schitt's Creek" where David Rose and his father get into an argument about write-offs? If you have, then you are likely chuckling to yourself. If you haven't, well… you should watch for a quick laugh.

As a law firm owner, you have access to several deductions aka "write-offs" that can reduce your taxable income. These deductions include expenses related to your office space, business equipment and supplies, business travel, client entertainment, and professional development. Additionally, you may be eligible for deductions such as employee salaries, health insurance, and retirement plans. Working with a tax professional can help you identify the deductions that apply to your business and maximize your tax savings.

MAKE ESTIMATED TAX PAYMENTS

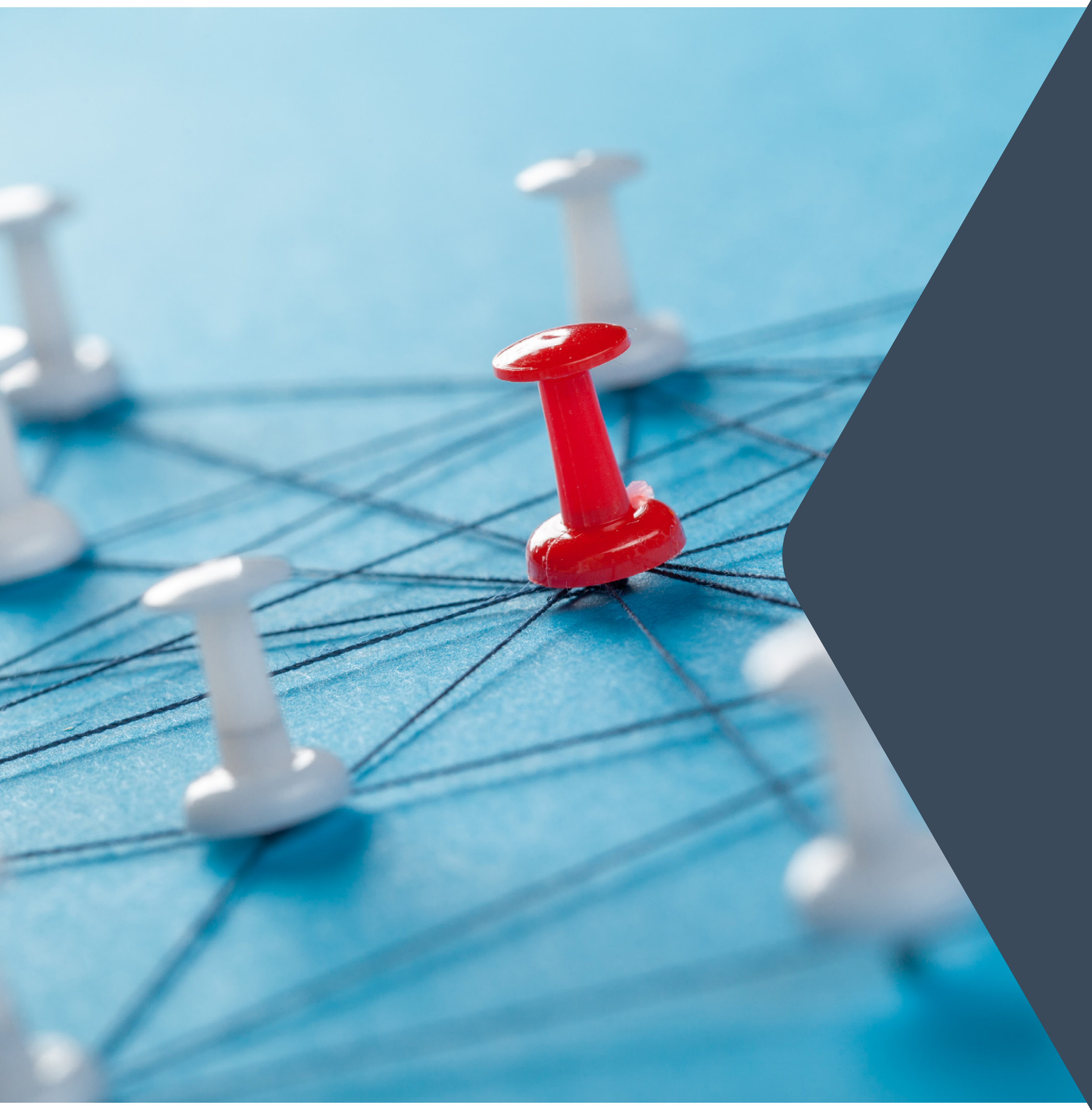
As a self-employed attorney, you are responsible for paying estimated taxes on your income throughout the year. If you fail to make estimated tax payments, you may be subject to penalties and interest charges. The only thing worse than paying taxes is paying extra fees!

To avoid these penalties, estimate your tax liability, and make payments quarterly to the IRS. Your estimated tax payments should cover both your federal and state tax obligations. Your CPA can help you estimate your quarterly payments and can advise you on how pay to save. For example, if you are in the 28% income tax bracket, your CPA may advise you to save 30% of the funds you pay yourself to cover your tax liability.

KEEP UP WITH TAX LAW CHANGES

Tax laws and regulations frequently change. Staying up to date with these changes is essential to minimize your tax liability actively. Periodically consult with a tax professional or attend seminars to learn about tax law changes that may affect your law firm.

If you don't want to DIY your taxes, it can be invaluable to find a CPA early on to teach you smart strategies to stay compliant with tax payments and managing deductions. Working with a tax professional can help you navigate the complex tax laws and regulations and ensure that your firm's finances are in order. By taking these steps, you can focus on providing excellent legal services to your clients and growing your successful law firm.



PART 10:
NAVIGATING NETWORKING: FINDING NEW CLIENTS AND GENERATING MORE REVENUE FOR YOUR LAW FIRM

As a lawyer, your reputation is everything. But how do you build that reputation and become “top of mind” for potential new clients and referral sources? How do you connect with potential clients, colleagues, and other professionals in your area?

THE ANSWER IS NETWORKING.

By attending events, participating in organizations, and connecting with others in your field, you can build a powerful network of contacts that can help you find new clients and generate more revenue for your law firm. In this section, we’ll explore some key tips for navigating networking and making meaningful connections that can help your practice thrive.

#1 ATTEND EVENTS STRATEGICALLY

When it comes to networking, there are a lot of events and organizations to choose from. But not all of them are created equal. To make the most of your time and effort, you need to attend events that are strategically aligned with your practice and your goals.

#2 PARTICIPATE IN ORGANIZATIONS

In addition to attending events, participating in organizations can be a great way to build connections and establish yourself as a leader in your field. Consider joining professional associations, bar associations, or local business groups. Not only will you have the opportunity to network with other professionals, but you may also be able to participate in speaking engagements or writing opportunities that can help you establish yourself as an authority in your area of expertise.

#3 LEVERAGE SOCIAL MEDIA

In today’s digital age, social media can be a powerful tool for networking. LinkedIn, for example, is a great platform for connecting with other professionals in your field and sharing updates about your practice. Be sure to optimize your profile and engage in conversations with other users. You may also want to consider targeted advertising on platforms like Facebook to reach potential clients in your area.

#4 FOLLOW UP AND STAY CONNECTED

When it comes to networking, there are a lot of events and organizations to choose from. But not all of them are created equal. To make the most of your time and effort, you need to attend events that are strategically aligned with your practice and your goals.

#5 BE AUTHENTIC AND BUILD TRUST

Finally, it’s important to remember that networking is ultimately about building relationships. Be authentic and approachable. Focus on building trust with those you meet. Show a genuine interest in others and their work. Look for opportunities to help or support others – be a resource. By building strong relationships based on trust and mutual respect, you can establish yourself as a key player in your field and generate more business through referrals and word of mouth.

GO FORTH AND NETWORK!

By following these tips, you can take control of your networking strategy and build a powerful network of connections that can help you find new clients and generate more revenue for your law firm. Remember to attend events strategically, participate in organizations, leverage social media, follow up and stay connected, and be authentic and build trust. With persistence and patience, you can establish yourself as a respected leader in your field and build a practice that thrives on strong relationships and networking opportunities. So get out there and start making connections today!

PART 11:
THE ECONOMIC PITFALLS OF A PROBLEM CLIENT

Sometimes the smartest financial move you can make when you run your own law firm is to part ways with a problem client. It can feel uncomfortable to "fire" a client and lose their "business" but most lawyers who have fired a client will tell you they never regretted that decision.

Of course many problematic clients are a pain because they don't pay on time or at all. I don't need to explain the economic downside of that. Other problem clients can harm the finances of your firm because they cause undue stress or drama that distracts you and your team from the core work you should be doing.

Some "problem clients" come with large, neon red flags. Others can be hard to spot and avoid. Since we don't have a crystal ball to tell us which potential clients to avoid, here are a few common scenarios to watch for to try to avoid a problem client.

CONSTANTLY SUBSTITUTING COUNSEL

Any potential new client who has already been through multiple other attorneys needs to be a huge red flag on your radar. If the potential client is in the midst of litigation and you would be replacing current counsel, be sure to ask for the full history of their representation on the matter starting with the very first attorney. Use your best judgment, but in general, if you would be attorney #3, #4, #5, #6 or more on a case, you probably don't want to take on the representation. And, if you are considering taking the representation anyway, ask the potential client if you can discuss the matter with their prior counsel before accepting representation. If the response is "no," be wary of what is being hidden from you.

THE KNOW IT ALL

Another potential problem client to keep an eye out for is the know-it-all client who wants to micromanage the representation. I once had a client who started to frequently debate my legal analysis of the facts of his case. A few months into the representation, I found out the client had a child who was in their first year of law school and he was discussing his case with this law student. The law student's speculation on the case and a very nuanced area of law in turn interfered with my relationship with my client. The client became a "know-it-all" who was incapable of listening to my seasoned advice.

This type of problem client can be hard to spot during initial consultations and it can take weeks – or months – for this type of behavior to surface. When it does, please resist the urge to send them one of my favorite coffee mugs which says: "Please do not confuse your Google search with my LAW DEGREE." Instead, you may want to have a frank discussion with your client about the micromanaging and consider whether the fee is worth the headache. Remember, withdrawal is always easier at the outset of a case than a few weeks before trial.

UNREASONABLE EXPECTATIONS

If a potential client has unreasonable expectations during the consultation phase, don't kid yourself into believing that you'll be able to get those expectations under control later in the representation. If the client wants you to take legal action that is unprofessional, unethical, or otherwise outside your normal course of any client representation – just say "no." No client is worth tarnishing your credibility and reputation, and certainly not worth sanctions or bar action.

EMOTIONALLY CHARGED

From time to time you may encounter a potential client who is emotionally out of control. This needs to be another warning on your radar. Perhaps the client is excessively angry or hostile towards opposing parties. It's unlikely you'll be able to temper that rage even with a few wins in the courtroom. Soon those feelings may get directed at you or your team, making already stressful litigation even more difficult to manage.

PRICE SHOPPERS

Any potential client who is so fee sensitive that they balk at the cost of your consultation fee or initial retainer is generally not worthy of becoming a client. Especially if they show up to the meeting in a luxury automobile with a designer handbag or fancy watch on their wrist.

Know the value of your time and expertise and don't negotiate for less than you are worth. There will be other clients who understand your value and will be willing to pay for your services without complaint. Wasting time on work for non-paying clients that you have to chase for payment is much worse than non-billable time you could spend on client development and building your business.

PART 12: INVESTING WISELY TO GROW YOUR BUSINESS

Certainly, one of your main goals is to grow your business. One of the best ways to achieve this is by investing wisely. However, it can be challenging to know the right time to make investments and how much money you should be paying yourself versus investing back into your firm.

Investing in your firm can cover a broad range. It can mean things like hardware and software upgrades to training sessions, office and furniture upgrades, team retreats, or attending conferences. So, how can you ensure that you are investing wisely and maximizing your profit while doing so?

WHEN SHOULD YOU PAY YOURSELF & HOW MUCH:

As a business owner, it's important to find a balance between paying yourself and retaining funds in the business account. Most experts recommend paying yourself a salary and considering that salary as an overhead cost.

The general rule of thumb is to pay yourself at least the industry standard for your experience level. For example, if the standard salary for an attorney with your level of experience is $100,000 per year, you should pay yourself at least that amount. However, keep in mind that you also need to be saving for taxes, insurance, and other business-related expenses. It's recommended to save at least 30% of your profits for this purpose.

HOW MUCH MONEY TO RETAIN IN A BUSINESS ACCOUNT AND HOW MUCH TO PAY YOURSELF:

When it comes to determining how much money to retain in the business account versus how much to pay yourself, it largely depends on your business goals. If you are looking to grow your business, it's a good idea to retain more funds in the business account. This will allow you to invest in growth opportunities such as hiring additional staff or expanding your office space.

On the other hand, if you are satisfied with the size of your business and are not actively looking to grow, you can pay yourself a larger salary and retain less in the business account. Either way, a tax professional can certainly help advise you on your unique situation for salary and business savings.

HOW TO KNOW WHEN TIMING IS RIGHT TO MAKE INVESTMENTS IN YOUR FIRM:

Knowing when the timing is right to make investments in your firm can be a difficult decision. One of the best ways to approach this decision is by considering the return on investment (ROI). Will this investment increase revenue? Will it reduce costs? Will it improve the productivity of your team? If the answer is yes to any of these questions, it's likely a wise investment.
Additionally, it's important to stay up-to-date on industry trends and innovations. If a new software program or training session can improve the efficiency or quality of your work, it's worth the investment.

HARDWARE, SOFTWARE, TRAININGS, OFFICE / FURNITURE, TEAM RETREATS, CONFERENCES:

Investing in hardware and software is essential for any modern law firm. Updated technology can improve productivity, reduce errors, and provide clients with a better experience. In addition, investing in training sessions for you and your team can improve your skills and knowledge, making you more marketable and efficient. Upgrading your office furniture and decor can also make a big difference in the mindset and productivity of you and your team. Finally, attending conferences and team retreats can boost morale and provide networking opportunities. All of these investments can contribute to the growth and success of your firm.

ABOUT THE AUTHOR

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Kristin Tyler is Co-Founder and Chief Brand Officer at LAWCLERK. She is a frequent speaker on the ethics of legal outsourcing and smart hiring strategies for law firms. She was named to the American Bar Association's 2022 LTRC's Women of Legal Tech.

She is also a partner at the law firm of Garman Turner Gordon. Kristin has built a robust estate planning and probate practice. She is known for her work ethic, her integrity and her ability to connect people. As a partner of a mid-size law firm, she understands the challenges that her fellow attorneys face in today's fast-paced, rapidly evolving legal industry.

In addition to being a lawyer and entrepreneur, Kristin is a proud mom and firm believer that the practice of law can be rewarding despite its daily demands.

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