

## Your Basic Matter Level Profitability Report: A Common Tool for Innovative Thinking in Law Firms

By [Michael D. Short](#) on September 17, 2014

The word “innovation” (the act or process of introducing new ideas, devices, or methods – Merriam-Webster online) is being used quite liberally within the legal marketplace right now, as many firms try to claim or develop some variation of innovation that benefits clients, looks different, creates some public relations attention...but doesn't *really* require significant internal change. We see firms regularly claiming innovative approaches, yet few truly demonstrate the ability to break free from current models/patterns/systems/processes to do something truly unique.

Why? Albert Einstein provided some valuable insight, when he observed, “You can't solve a problem on the same level that it was created. You have to rise above it to the next level.”

Rising to the next level is particularly challenging for a successful lawyer, for whom the #1 tool of the trade is a precedent. Training for lawyers is based upon precedent. “Innovative” legal strategies are often based upon new interpretations of existing laws and prior legal work. Following similar lines of thinking leads some lawyers to conclude that sending bills out by the 3<sup>rd</sup> day of the month instead of the 10<sup>th</sup> is a truly innovative solution to improving cash flow. This conclusion is merely an improvement on an existing system and related rules – their precedent.

Which lawyers are truly innovating right now...and why? In our recent experiences, those who are focused on improving service delivery and/or the profitability of their work (not just the revenue generated by their work) are innovating. These are the Partners who have figured out that they can actually deliver higher levels of service and profits on less revenue. Some of them practice in commoditized areas of law wherein the client can exert significant resistance to legal fees and hourly billing rates, thus capping revenue growth. Others want to take significant books of business to a “next level” of revenue AND profits. In a third category are former in-house lawyers who have a recent first-hand perspective on what their clients want from their lawyers and law firms. (There are, of course, other categories.)

All three types of Partners rely on a common tool already available in many law firms, and easily acquired in most others, to support innovation. This magical and powerful tool is your basic matter level profitability report.

A Partner who is focused on matter level profitability will stare at one of these reports for some time to figure out how to improve client service without adding costs and/or drive more money to the bottom line. The series of basic questions they often follow, in order, are:

1. Are the services priced appropriately? Can the matter-level profitability reports for prior and similar work be used to develop a new and interesting method for projecting a value for the services? For creating a win-win billing approach with the client?
2. Is the matter staffed appropriately based on historical work processes? Does the profitability of the matter improve by using a more junior yet equally capable lawyer? Can some aspect of the work be supported by a paralegal or some other timekeeper with a lower fixed cost level? Are new staff classifications/jobs/timekeeper roles needed?
3. Can the steps in the applicable work process be changed to push more work down to more low-cost timekeepers?
4. Can technology be applied to the work process to automate certain steps, thus leveraging the firm's computers?

5. Can certain steps be outsourced to a Legal Process Outsourcing group, thus using an “on-demand” workforce that is resident outside the law firm and applying innovations developed elsewhere?

This little outline is an over-simplification of a complex train of thought but it does touch on several drivers of matter-level profitability.

One can reach Einstein’s elusive “next level” via a variety of means and analyses. If you’re having trouble getting started with this concept and need a simple catalyst for *your* version of basic innovative thinking, grab a matter level profitability report for one of your files/mandates/assignments – a tool that many of you already have. When supplemented by a sincere desire to improve client service, boost profitability, and try new and different tactics, innovation is the result.

You don’t need to be a genius to innovate. You just need a good report and an open mind. Get to work.