

## MAINTAINING (AND EVEN IMPROVING) PROFITABILITY IN TODAY'S ECONOMIC CLIMATE

### A Guide for Law Firms

The current economic climate has forced many law firms to re-examine their business model, including structure, business policies, and practice areas. For some law firms this has meant cutbacks, particularly in the areas of staffing and perks, but for others, this closer look has revealed opportunities to create new service offerings.

### Current Times Call for Cost-Savings and Creativity

“Going green” can save both time and money. Firms are using less paper and becoming more dependent on electronic transmission, especially younger associates and partners. Drafting motions, closing statements, and other electronic litigation documents are becoming commonplace. Attorneys who are still hooked on paper are being encouraged to work electronically and are frequently assisted by more technologically-savvy associates and administrative staff. In addition, for those firms that own their own buildings, tax credits may be available for the installation of solar panels and other renewable energy sources—consult your accountant for details.

One area where law firms can be more flexible—and reap rewards—is alternative billing arrangements. Instead of the traditional hourly agreement, some firms

have begun to bill per project or to utilize a flat fee structure for various litigation matters, as well as extras, like the use of additional resources from a different geographic location or any additional services not included in the initial scope of services. This pricing method is a

win-win for both parties. It enables firms to capture additional business from clients and clients feel valued because they are not paying top dollar. This may serve as an effective relationship-builder.

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A closer examination of a firm's labor force is common during an economic slowdown; as such, many law firms have either frozen or reduced hiring—including summer associates—and are examining their entire salary structure. These actions may yield significant cost savings, in particular, for those firms that may have taken on too many people during the boom days.

Other firms are closing secondary

offices and turning to partnerships with international firms or industry associations for resources—a much less expensive alternative to maintaining a permanent presence in multiple locations. A few firms have taken to eliminating private offices—even for partners—in

favor of cubicles, which are less costly to set up and furnish. Some, sensitive to being perceived as a very expensive firm, are going a step further and toning down the “look” of their office space. In today's market, over-the-top decor could turn off prospective and current clients.

Streamlining specific processes such as document preparation and research—as well as outsourcing them to a less-expensive location—is another way firms can generate cost savings.

### Increase—Don't Decrease— Marketing and Training Expenditures

Consider ramping up targeted marketing efforts as opposed to just controlling costs. Some firms are increasing advertising in relevant media to support specific areas like bankruptcy and going green. Others

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are making greater use of technology via webinars and regular newsletters and e-mails on a variety of industry issues to get their messages across to prospects and clients. Increased visibility may help position you strategically for when the economy improves and can even help fuel a surge in growth. Create a new practice area and tailor it to today's hot topics. Two emerging areas are alternative energy and economic stimulus advisory.

Some firms are also using geographic location to their advantage. For example, there are metro area firms that are targeting the New York market with increased vigor. They are rightly thinking that this is a great time—with their lower fee structure and partner-level attention—to wrest some work away from some of the larger firms.

Similarly, it's a good time to redirect your resources; cutting back on training now to save money could be a penny wise and pound foolish action. If talented, accomplished partners and associates are available, perhaps due to reduced business in areas like real estate, corporate transaction work, or mergers and acquisitions, they can be trained to assist in other areas like bankruptcy or other pressing litigation matters. People are any firm's most valuable asset. An investment in their increased knowledge and capability is time and money well spent.

### **Is Your Firm Cross-Selling Its Services?**

Law firms need to truthfully assess whether or not they are doing a good job mining their existing client base for more work. If not, this can be an acute liability. This exercise does not come naturally to

some firms—attorneys can be wary of sharing their clients. Most firms are not identifying opportunities effectively as a result of siloed practice areas and long-established attitudes about one's own turf. In response to this reluctance, firms are developing financial incentives to encourage attorneys to work together to generate more business.

### **How Your Accounting Firm Can Help**

In today's down market, consider looking to your accounting firm for specific financial

firms review business trends regularly—usually quarterly and semi-annually—so that managing partners can monitor their firm's financial activities. Monitoring trends month-over-month and year-over-year is an extremely useful exercise in determining the growth and profitability of practices as well as the effectiveness and efficiency of internal and external processes. One area that firms need to be mindful of is aging accounts receivable. Work in process that isn't getting billed out is another concern.

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guidance. With the help of a professional, it's an ideal time to, among other things, review your financial statements and perform trend analyses for costs and practice areas. There are many ways your accounting firm can assist. Accounting firms that have a concentration of law firm clients across a specific geographic area are familiar with trends in hiring, marketing, cost-cutting, and practice development—and this collective knowledge and experience can be invaluable.

Law firms, now and in the future, must manage their practice at a deeper level, and really take a close look at their inventory of open cases. Many partners and senior associates are so entrenched in the daily routine of doing business that it can be difficult for them to turn their attention to the key components of the business.

In good times as well as difficult ones, accounting firms like J.H. Cohn can help law

Your accountant can also help evaluate your lending relationships as well as identify sources of additional capital. Taxes are also an important area of concern to any business, and your accounting professional can discuss tax planning at year-end to help identify opportunities to control tax costs. Firms such as J.H. Cohn also assist with succession planning and the sensitive process of transitioning partners whose practice areas are no longer profitable and do not fit in with the firm's long-range plan.

Law firms are also increasingly seeking multiple accounting firms to help with special projects. In addition to the accountant who performs their core work, they may hire a firm to assist in the areas of mergers, strategic planning, partnership or shareholder agreements, or internal control review. Some accounting firms, including J.H. Cohn, have successfully performed work for clients in the areas of litigation support, tax controversies, and cost segregation

studies (CSS). A CSS is conducted to determine if a company can benefit from accelerated depreciation of their real estate assets. If so, the company could realize thousands of dollars in savings.

Despite today's challenges, it's an interesting and dynamic time for law firms. Those firms that are proactive about monitoring all of the financial aspects of their business

and keeping an open mind toward new sources of income will be better positioned to maintain and even increase profitability in the current recession and beyond. ■

*Jerome Donovan, CPA, is a partner at J.H. Cohn and a member of the Law Firms Industry Practice. He works with many law firms on various accounting and financial issues and can be reached at [jdonovan@jhcohn.com](mailto:jdonovan@jhcohn.com) or 732-380-8617.*

For more information on J.H. Cohn's Law Firms Industry Practice, [click here.](#)

## California

### San Diego

4180 Ruffin Road, Suite 235  
San Diego, CA 92123  
858-535-2000

### Los Angeles

Good Swartz Brown & Berns,  
A Division of J.H. Cohn LLP  
11755 Wilshire Boulevard, 17th Floor  
Los Angeles, CA 90025  
310-477-3722

### Warner Center

Good Swartz Brown & Berns,  
A Division of J.H. Cohn LLP  
21700 Oxnard Street, 7th Floor  
Woodland Hills, CA 91367  
818-205-2600

## Cayman Islands

P.O. Box 1748 GT  
27 Hospital Road  
George Town, Grand Cayman  
877-704-3500 x7839

## Connecticut

### Glastonbury

180 Glastonbury Blvd.  
Glastonbury, CT 06033  
860-633-3000

## New Jersey

### Roseland

4 Becker Farm Road  
Roseland, NJ 07068  
973-228-3500

### Eatontown

27 Christopher Way  
Eatontown, NJ 07724  
732-578-0700

### Lawrenceville

997 Lenox Drive  
Lawrenceville, NJ 08648  
609-896-1221

### Metro Park

333 Thornall Street  
Edison, NJ 08837  
732-549-0700

## New York

### Manhattan

1212 Avenue of the Americas  
Suite 1200  
New York, NY 10036  
212-297-0400

Charles Brucia & Co.,  
A Division of J.H. Cohn LLP  
1212 Avenue of the Americas  
New York, NY 10036  
212-682-2459

Frederic Kantor & Company,  
A Division of J.H. Cohn LLP  
1212 Avenue of the Americas  
New York, NY 10036  
212-727-2300

### Long Island

100 Jericho Quadrangle  
Suite 223  
Jericho, NY 11753  
516-482-4200

### White Plains

1311 Mamaroneck Avenue  
White Plains, NY 10605  
914-684-2700

 **J.H. COHN** LLP  
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877-704-3500  
[www.jhcohn.com](http://www.jhcohn.com)

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