

The 5 Big Threats Facing Small Law Firms Today

By Richard Hugo-Hamman

It is often forgotten by the media that most people and small businesses rely on small law firms when they need legal help. The fascination that main stream media has with big law firms distorts the common view of the profession which consists largely of lawyers in firms of about 4.5 people, helping people. In fact, even in a state like New South Wales which has most of the large law firms, an astonishing 87% of law firms are sole practitioner firms, some working alone, others with two or three people helping, and with 52.3% of lawyers admitted in the last 10 years, it is a young profession.

Without the resources of large firms, these business owners must be versatile and resourceful. Apart from meeting client needs they need to be a Financial Controller, HR Manager and IT specialist rolled into one. To do this well, they also have to be more efficient. The large amount of undocumented pro bono and heavily discounted work done by most small suburban and rural firms lawyers is also completely overlooked, but this non billable work puts even more pressure on these firms.

We have identified what we consider to be the five biggest threats facing small law firms today.

THREAT 1 - Not Getting Paid

It is an unfortunate fact that although you love the law, you do have to spend a lot of time and suffer a lot of anxiety around getting paid. It can destroy your enthusiasm for practice and is a cause of client dissonance and complaint.

Fortunately, if you are responsible for ensuring that salaries and overheads are paid every month, there are practical things you can do to minimise the time and anxiety expended on getting paid. Here is a checklist.

- Provide your clients with flexible and easy payment options - online, BPAY. The more options you provide, the quicker you will collect.
- Get a trust deposit before you start work - every time!
- Set a trust retainer limit - and regularly and routinely get it topped up.
- Set fee and cost estimates and know when you are approaching the limits.
- Always provide a good fee agreement, and keep your client informed if circumstances change.
- Keep a close eye on debtors and unbilled WIP and disbursements.

- Monitor all employed solicitors closely – their concerns differ from yours.
- Produce regular bills for smaller amounts. As you know, a big bill at the end of a matter will create an unhappy client and an inevitable discount. Regular bills for small amounts eliminate this hazard of practice.
- Ensure that every bill is in plain English and easily understood.
- Apply your own payments terms with discipline - stop work if you are not properly instructed!

THREAT 2 - Increased Competition

The number of law firms is set to grow at 3.6% per annum over the next five years. The Australian population is only growing at 1.5% per annum. This means increased competition and increased pressure on charge out rates.

Fortunately, you can do something about this. You can compete more effectively and hold up your value in the market.

- Lower your cost base by doing more work with fewer people - this gives you the flexibility to lower your rates but retain your profit margin.
- Minimise non-productive administrative time by automating as much data processing and bookkeeping as possible.
- Respond to your client's queries when the client calls because you have all information about each matter in one place.
- Work more efficiently - clients notice promptness, particularly when expecting a document or email.
- Provide a broader range of services and cross-sell effectively - stop referring work away.
- Attract new clients with a great Google optimised website (most small firms don't have one!).
- Bill regularly for smaller amounts.
- Ensure that every bill is in plain English and easily understood.

THREAT 3 - The Skills Shortage

It is increasingly difficult to find and keep good staff.

To make matters worse it is no longer fashionable to become a bookkeeper or legal secretary. In rural and regional areas firms are finding it very difficult to even find lawyers.

But you can respond to this threat in a structural way - put systems in place that enable you to do more work in more areas of law, but with fewer people.

- Attract the best staff by providing the best and most widely used software systems.
- Train and empower your good staff to provide more paralegal assistance so that they earn fees for you and have more rewarding careers.
- Do more work with the same number of people using productivity boosting software.
- Enjoy higher profit margins so you can attract and employ the best because you can pay higher wages than your competitors.

THREAT 4 - Over-Dependence on Conveyancing

Most small law firms provide a full service. It is a luxury to be able to specialise. A healthy small law firm needs a broad range of revenue sources to provide structural financial resilience.

By choosing a range of common practice areas the worst consequences of a down turn in the economic cycle can be avoided. And you will have a stronger business.

- Practice confidently in more areas of law.
- Use proven pre-configured matter types to capture all the information you need to run the matter.
- Have all the legal forms in all common areas of law automated and available at your finger tips.

THREAT 5 - Communication Breakdowns

When you are running a small law firm and are almost certainly the main fee earner, you always put urgent client interests first. So the busier you are, the easier it is to overlook routine communication, conducting of regular file reviews and keeping your clients informed. This can get you into trouble.

In fact, 40% of the complaints against lawyers dealt with by LawCover NSW in 2014 related to communication breakdowns. You can avoid being complained about.

- Use an Electronic Matter and keep all information, incoming and outgoing correspondence including emails, and other documents in one place - impress your clients with your ability to respond when they call.
- Make fast contemporaneous notes in the Timesheet so that you have an irrefutable audit trail of all client and matter conversations.
- Have standard letters and emails setup so that you spend minimal time on routine reports to clients.
- Set Critical Dates so that you don't miss anything that you will need to explain away to a client.
- Create workflows to prompt you to create important documents at the right time.
- Have good cost agreements in all the areas of law you practice.
- Bill regularly using contemporaneous note records - many allegations of communication breakdown relate to disputes over money.
- The challenges for small law firms are many. You can overcome them.