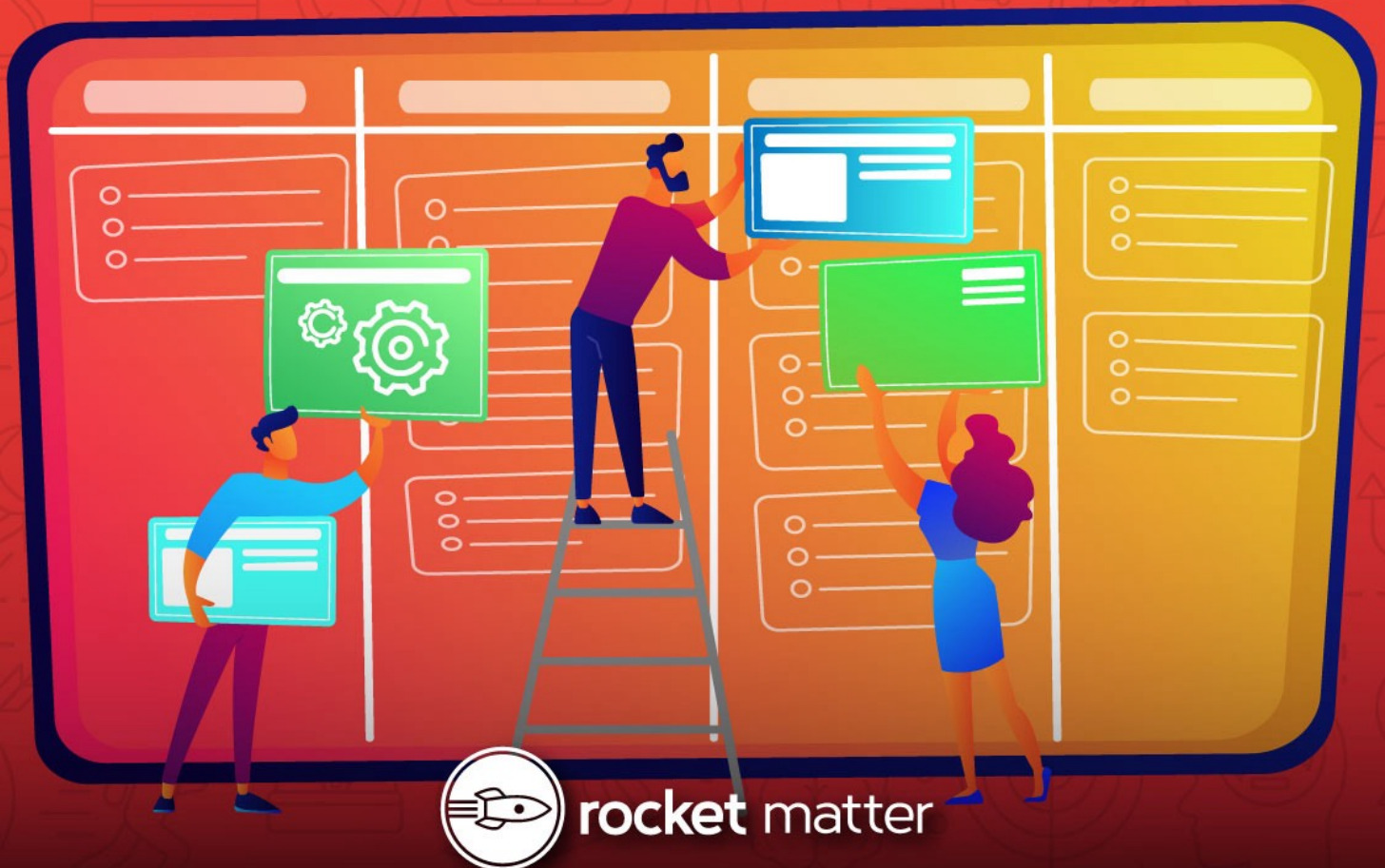




# LEAN LAW FIRM BASICS

INCLUDING A SAMPLE CHAPTER FROM  
THE ABA'S BEST-SELLER *THE LEAN LAW FIRM*



rocket matter



# Introduction: Why Law Firms Are Embracing Lean

Let's get one thing straight right off the bat: When we're talking Lean, we're not talking cheap. Running a Lean law firm doesn't mean we're running a stripped down, bare-bones operations that minimizes costs above all.

Lean is a methodology. It originated in automotive manufacturing as the Toyota Production System and has been adopted across multiple industries. Healthcare organizations, software companies, governments, and many other verticals have embraced Lean as a way of doing business.

At its core, Lean is about separating waste from value. It's about constantly measuring and improving your operations so that you can maximize the value you're supplying to your client. It's about increasing your revenue in a predictable manner. It's about recognizing what you're doing that can be optimized, and how to measure the output of your optimizations.

When I first started working with law firms, I was advised to not use words like "profit" or "revenue". There was an aversion to business terminology, as if it soiled the decorum of the work of an attorney.

Yet as we've seen across industry, we are living in a time of major change. Most lawyers I know think their work is immune to this period of disruption. But I'm not so sure. Businesses that no one thought could be disrupted are in decaying ruins. Consider Kodak, Blockbuster, Sears, Blackberry – all behemoth companies that are if not totally gone, then a shadow of their former selves. And if you think your profession is immune from the forces transforming society, just talk to a cab or limo driver. When Napster turned the music industry upside down, I'm sure they didn't see the possibility either.

As of 2019, California is considering removing Rule 5.4, which would allow non-attorneys to run law firms. Imagine if billionaire Silicon Valley investors invented a way to provide legal services as a business. If they took their know-how in pricing, process improvement, marketing, and technology and attacked the legal market. Likely, they will begin to focus on federal laws like intellectual property, labor, immigration, and others. This will cause pressure on other states to allow their federal practices to compete, and before you know it, all 50 states will allow non-lawyers to run law practices.

Robots making closing arguments in a courtroom is not a thing we're going to have to deal with (anytime soon, at least). But small chips are wearing away at some aspects of legal business. LegalZoom and RocketLawyer are helping people with more commoditized aspects of law, such as simple contracts and filings. Wall-mart has experimented with providing family legal services in Canada. And AI continues to improve legal research, transcription, and litigation support, eliminating the need for as much legal support staff in organizations.

Whether or not legal gets rocked the same way other industries has remains to be seen. The legal skill itself is not changing, but the method of marketing and delivery may. So the writing on the wall is clear: Now is the time for law firms to get wizened up to the ways of running a business.

Lean gives you an instant business operating manual for how to run your law firm. This book gives just a taste of what you can do. We go over the core concepts of throughput rates, cycle times, Kanban board, waste, and include a sample chapter from our more in-depth book, *The Lean Law Firm* (ABA Press, 2018).

That book goes into greater detail and exploration about how to run a law firm, specifically:

- What key performance indicators (KPIs) your law firm should track.
- Understanding systems thinking and how law firms can be modeled and measured like factories.
- How to conduct strategic planning sessions.
- A guide on technology adoption and fostering change in a law firm, which traditionally is a venue where getting change to occur is hard.
- How to approach marketing through a Lean lens, what to measure, and what activities to avoid.

I hope this book helps you get started on your Lean journey. I appreciate a dialog, so please do send your thoughts and questions to me at [larry.port@rocketmatter.com](mailto:larry.port@rocketmatter.com)



# Table of Contents

|  |    |
|--|----|
| <u>Introduction: Why Law Firms Are Embracing Lean</u>  | 1  |
| <u>Is a Law Firm Different Than a Donut Shop?</u>  | 5  |
| <u>Reducing Cycle Time By Removing Bottlenecks</u>   | 8  |
| <u>Lean Core Concept: Value vs Waste</u>   | 12 |
| <u>Lean Can Help Hourly Billers Shift to Alternative Fees To Boost Income</u>  | 17 |
| <u>Getting Control of Technology: An excerpt from “The Lean Law Firm: Run Your Firm Like the World’s Most Profitable &amp; Efficient Businesses”</u> | 21 |
| <u>Glossary</u>  | 34 |
| <u>About Rocket Matter</u>   | 35 |



## **Is a Law Firm Different Than a Donut Shop?**

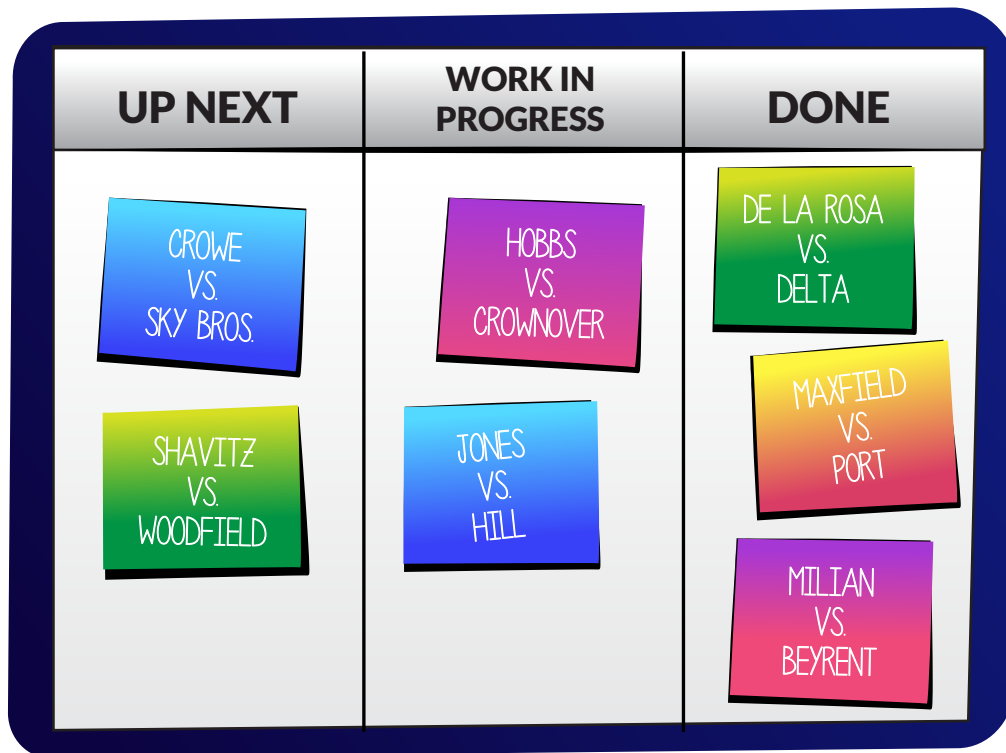
Lean is a business technique that law firms can employ to learn from manufacturing. We apply lessons learned in the production goods to the knowledge work of a law firm. To study manufacturing, a miniature example which illustrates our point is the production of the mighty, humble, and delicious donut.

All businesses operate the same way: They make and sell a product or service that solves a problem. In the case of a donut shop, the customer lacks a donut. They are willing to pay money to the donut store for providing the solution, which includes a production system, quality controls, packaging, and so on. Donuts go through a mini production line: they start as ingredients, becoming circular rolls of dough, which are then fried, topped with lots of delicious options, and placed in a box.

Law firms, like donut shops, solve problems for money. A law firm also has a production line, though usually it does not include topping anything with sugar. The more a firm can improve production and maximize profits while taking care of the client, the more successful the law firm will be.

## Modeling Production with Kanban Boards

Obviously, donuts are tangible things and legal services are not. As a result, this can make it difficult to visualize the production system of a law firm, which is where Kanban boards can help.



Visual example of a Kanban board.

Kanban boards are one of the best ways to analyze systems and production processes. They are surprisingly simple: a Kanban board is a series of swim lanes, left to right, that model the phase a case can be in. Cases are on index cards (or virtual index cards) that travel from left to right. In their simplest form, you want to track what's up next, what's in progress, and what's done.

In law firms, you can be more specific with your swim lanes and customize them. For instance, you might be "Intake", "Need to File", or "Discovery".

Even though a Kanban board is a simple thing, it translates physical production into knowledge work. Your cases go through a system the same way a donut goes from the mixer to the fryer to the toppings. Once you have a system, you can now start to apply systems thinking to your law firm. You can, for example, measure the speed at which cases spend in each phase, and how long they take to go through the system as a whole.

## **System Thinking and KPI's**

System thinking relies on Key Performance Indicators (KPIs). One important KPI to track in Lean is cycle time. Cycle time is the amount of time it takes for a case to complete from start to finish. And “finished” means money is collected and the case is closed.

For flat fee and contingency billers, the ultimate goal is to reduce cycle time as much as possible. Lower cycle times allows you to increase the amount of cases you finish in a given year, which means more income.

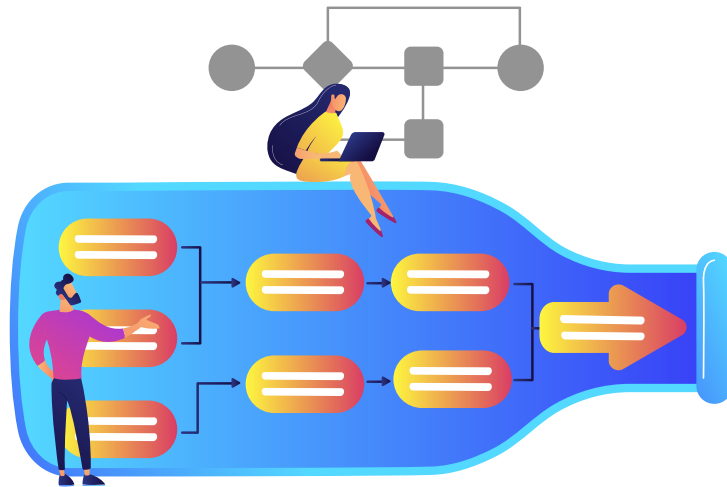
Not everything in law is inside your control, but when something is, you need to do everything you can to make sure it's done as efficiently as possible.

If hourly firms can transition to a flat fee pricing model, they can make a lot more money. The reason for this is that they are no longer incentivized by hours and can reduce the amount of time they spend on a case, but still earn the same amount of money. Then, the law firm can focus on reducing their cycle time, resulting in more cases processed each year. If the average price per case stays the same and more work is performed, the law firm generates more revenue.

System thinking techniques like Kanban boards and KPI tracking keeps you in touch with your firm. They help you to clearly see what your processes look like, where you encounter bottlenecks, how much time certain processes take (and what those processes essentially cost you in terms of money), and how to improve in order to maximize profits.

So, whether you're building bicycles, roofing a house, baking donuts, or operating a law firm, your success comes from providing solutions for people in return for money.



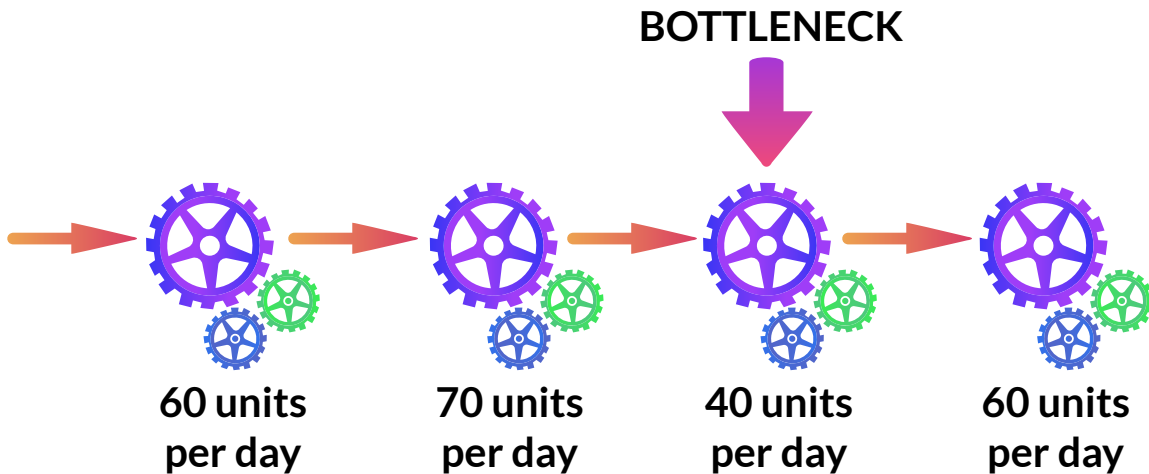


## Reducing Cycle Time By Removing Bottlenecks

Imagine you're leading a troop of twelve scouts on a wilderness trip. Your responsibility is to make sure that the children make it from point A to point B on their hike without anything terrible happening to any of them (like getting eaten by a bear!) You quickly discover that it doesn't matter how fast your speediest kid is because your overall speed is dictated by the slowest scout in the troop.

This story paraphrases one of the critical anecdotes in the book *The Goal*, a best-selling business book that explores an industrial engineering principle called "theory of constraints." That principle illustrates the following point: Your overall speed is only as fast as the slowest process in your system.

To draw an analogy from a factory context, imagine if a process had four steps: Step one produces 60 items per day. Step two has the monster performance of 70 items per day. However, at step three, only 40 items a day can be processed, before step four speeds things up at 60 items per day.



The fastest this system can produce is 40 items per day. Step three is the slow kid in the scout troop. Even though there are some super-optimized parts of this organization, they have what's known as a "bottleneck" or "constraint" that limits the overall output.

## Identifying Law Firm Bottlenecks and Removing Them

If you can identify bottlenecks in your own firm, then you can reduce cycle time, which leads to increased throughput rate and income.

One common bottleneck a law firm encounters happens toward the end of a case. The case may be resolved, but it needs to be pushed over the finish line as money still needs to be collected. Frequently, I advise managing partners to examine their work-in-progress cases and see what can be moved to conclusion. Even PI attorneys who win cases are slow to collect. Sometimes they are so consumed with the legal victory that they don't move the settlement funds along.

Another bottleneck occurs when a law firm markets their firm, but does not follow up with their leads. Year ago, Rocket Matter experimented with an online marketing service which built websites for law firms and drove traffic to them. In one instance, a law firm was complaining that we weren't helping them get any new business. When we looked into the situation, we discovered that we successfully supplied them with more than 200

leads in a two-week period. However, the leads were halted by a bottleneck—in this case it was their sales process—as they did not have a system to handle them.

Even removing a couple of days from cycle time here or there can have an impact on revenue. My co-author of The Lean Law Firm, Dave Maxfield, described a bottleneck he found in his law firm. In his county, he could either file cases via mail or in-person at the courthouse. It seemed to make sense not to waste a valuable employee’s time on going to the courthouse. It appeared to be a no-brainer to just mail in the filings.

It turns out that was a mistake. By the time the mail was delivered, processed, and sent back to Dave, seven days elapsed. For his profitability, it made a lot more sense to do the counterintuitive move of simply having a paralegal drive to the courthouse and file in person.

Bottlenecks can happen at any phase during a legal process. The more times you hand off work between parties, the greater the chance you have for a delay. Picture in your mind those individuals at your firm with overflowing inboxes. All it takes is one person in your law firm who is slow to produce, and the entire system can slow down.

The best way to identify bottlenecks is through Kanban boards. In the following example from Trello, we can see a pileup of cards in the “Filed” column. We see six case units there but only one in the “Waiting” column.

| PROSPECTS                                    | QUEUE                             | FILED   | WAITING                | DONE   |
|--|-----------------------------------|---|------------------------|--|
| <div><div></div><div></div><div></div></div> | <div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div></div> | <div><div></div><div></div><div></div></div> |

What this tells us is that cases are not moving from one phase to the next. What we need to then do is dive into the cases in the “Filed” column and see what’s going on. Why are they being held up? Who are the players involved? What can be done to remove the logjam?

You’ll find that removing constraints is a little like playing whack-a-mole at a carnival. As soon as you eliminate one, another one will surface.

The good news is that even though the bottlenecks move around, each optimization brings about greater overall efficiencies and reduction in cycle time.



## Lean Core Concept: Value vs Waste

If you get the following set of relationships down pat, you have a firm handle on Lean and systems thinking:

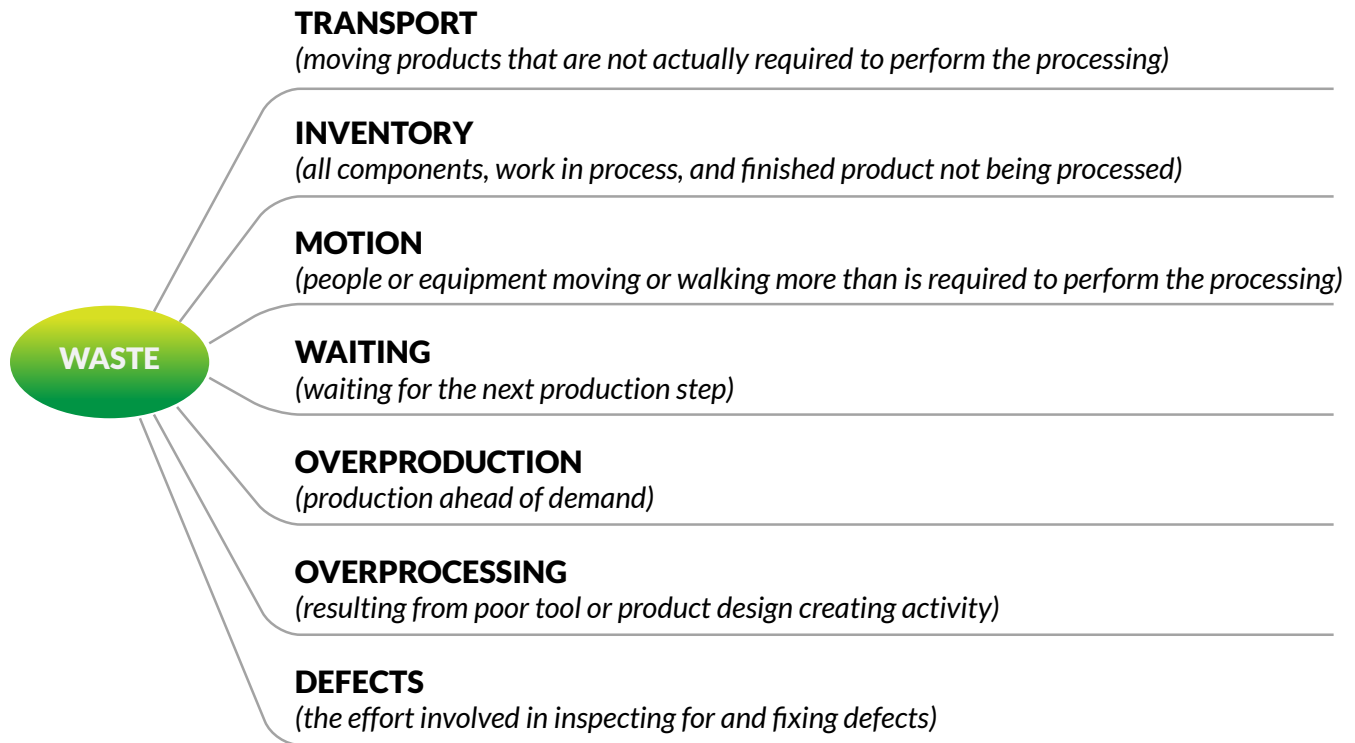
**We can boost revenue by increasing our throughput rate. We can increase our throughput rate by reducing cycle time. And we reduce cycle time by eliminating waste.**

Waste is a fundamental concept in Lean. It is defined as anything that is not adding value to your client's experience, either directly or indirectly.

For example, working on a motion has direct value for your client. A two-day billing process does not. Taking CLE adds indirect value to your client, as you cannot serve your client without it. But labor-intensive, manual processes that can be easily automated are wasteful.

In Lean methodology, we use the word muda, from the Japanese word for waste. Taiichi Ohno, who developed the Toyota Production System that became Lean Manufacturing in the U.S., outlined seven different types of muda that can slow down production: transportation, motion, inventory, waiting, overproduction, over processing, and defects. Since you want to run your law firm like an efficient factory, let's explore how these waste factors can affect your case flow and go over some ways to eliminate them.

# MUDA OR WASTE TYPES



## Transportation and Motion

In a factory, a waste in transportation or motion is when products and workers are moved around when they don't really need to be. For your law firm, this could mean going more digital when you're in the initial stages of a case.

Can a client meeting be done through phone or email so that neither of you have to travel? Can you use virtual tools like Slack to ask your coworkers questions or update them on your progress so you don't have to spend as much time in meetings? Can you go paperless so you don't have to hunt down and reshelve paper files?

Dave Maxfield (co-author of The Lean Law Firm) has even moved his entire law office to a co-working space, which not only reduces the overhead of having an office, but also encourages more virtual solutions for communicating with your team without losing time.

## **Inventory and Waiting**

Waste in inventory for manufacturing is storing tangible products or materials that you don't really need, which is a huge expense.

The law firm equivalent would be not closing out a case or case unit. One of the biggest financial drains on a law firm is not pushing your cases across the finish line. There's a lot of revenue in those work-in-progress cases that can be accelerated.

Furthermore, having too many active open cases at once means that they can't move through the system efficiently, especially if you are blocked waiting for the next thing to happen, and that you can't put all your focus on the next case.

And taking too long on a case also might mean that the client can bring a grievance against you, so it's incredibly important to keep your case flow moving.

## **Over-Processing**

As we write in The Lean Law Firm, "In Lean, waste is bad and must be eliminated whenever possible, which is where technology can really shine."

One of the most impactful things any law firm can do is look at their processes and see what can be automated. For example:

- Setting up deadlines and processes for new matters is often a labor-intensive, manual, and error-prone task. Instead, use software that has matter templates to instantly set up matters with the correct deadlines.
- Billing processes for most law firms involve printing bills, folding them, stuffing them into envelopes, stamping, addressing, and mailing them out. Instead, electronic batch billing sends bills to clients instantly.

- Law firms wait for 30 to 120 days for payment, then manually enter payments and deposit checks. Instead, moving to electronic payment processing removes this labor and expense. Furthermore, your cycle time is reduced because money is collected faster, allowing you to earn more per year.
- Instead of looking for examples of documents, copy and finding and replacing to make new ones, employ document assembly, which can instantly create a new document when you need one.

## **Overproduction**

Lawyers sometimes tend to be perfectionists. This is not always a bad thing, as you want your work to be as mistake-free as possible. But perfection can be the enemy of the very good, and can lead to work that didn't need to be done in the first place (like lots of pretrial work before you're even sure if the case will go to trial).

Good enough can sometimes be just that, and if you're chasing perfection you're losing time and money for diminishing returns.

## **Defects**

While you don't want to be so perfectionist that you over process and overproduce, you do need to make sure to avoid major errors, or defects.

When a law firm creates a defect, the result can have no effect. Or it can result in you losing a client, losing a case, or being disbarred. In Law, defects are very serious business.

Even in relatively benign cases where defects don't cause a catastrophe, they are not just the problems themselves, but the effort lost when you have to fix those problems. Sometimes that's just a question of time: when you make a misstep on a case, you have to spend time and energy going back to fix your mistake.

Defects can also cause you to lose clients. Early on in Rocket Matter's history, we fired a law firm for sending us contracts that had easy-to-fix mistakes in them. They were cut



and paste errors. But it eroded our confidence in their abilities and called into question the amount of time they billed us to create the document we needed.

Whether you're a tiny law office or a white-shoe firm, waste is always something that can affect your bottom line. But by considering where in your process that waste is more likely to be piling up, you can work on taking out that trash and becoming more efficient for your clients.



## Lean Can Help Hourly Billers Shift to Alternative Fees To Boost Income

Lean techniques can rocket a firm to profitability if a firm moves away from hourly billing.

Here's why: If a law firm can derive the same exact value from a flat fee or hourly case, the flat fee case is more profitable. This is because the law firm can provide the same service with much less effort. Flat fee firms can employ automation and all sorts of other time savers, whereas hourly billers are economically penalized for streamlining workflows or introducing optimizations into their practice.

Yet for many small law firms, the idea of switching from hourly fees for complex litigation to flat fees seems like a fool's errand. In that line of thinking, there's no way to take something as unpredictable and complex as litigation and provide that service in any way other than hourly.

In spite of this belief system, business-minded mid-size and larger law firms, with the number crunching support of data analysts to help them, have been able to make the move away from the billable hour to alternative fee arrangements (AFAs) like flat fees. The fact that sophisticated operators are ditching the billable hour tells us three things:

- 1) Moving to AFAs is entirely possible
- 2) It is economically advantageous
- 3) There is market demand for it

From a client's perspective, hourly billing is no fun at all. It's unpredictable, which is the worst enemy of any budget. It de-incentivizes attorney-client communication: Any moment spent with an attorney is a moment that takes from the client's pocket. And in the back of a client's mind lurks the idea that hourly billing does not incentivize streamlining or optimization. Anything an attorney can do to shift away from billable hours has an advantage in the marketplace.

## **Just What Constitutes an Alternative Fee Arrangements?**

An alternative fee arrangement is a pricing model that doesn't involve traditional hourly billing. Some practice areas commonly employ AFAs already and are very successful: criminal defense lawyers routinely charge flat fees. Personal injury lawyers as well as some civil litigators favor the contingency model. But these aren't the only AFAs. Whatever you can dream up works, and some law firms have come up with some interesting ideas:

**Phase-based billing:** In this model, different phases of a case have their own pricing. It's a great technique for those firms who want to tiptoe towards AFAs, as hourly billing can be reduced gradually or combined with flat fees. For example, discovery might have a flat fee structure. Pre-trial might be hourly, if the firm does not have a handle on the size of the case. Settlement might have yet another fee structure.

**Flat fees with collars:** These arrangements are perfect in a situation where a law firm has a pretty solid idea of how much a case is worth but wants to protect against things going off the rails. A "collar" allows attorneys to say, "I'll agree to work on your case for a predetermined fee. But if we go over a certain amount of work, I'll need to charge you more."

## The Income Formula and The Mathematical Case Against Hourly Billing

In an earlier chapter, we discussed the KPI throughput rate, which is the number of cases a law firm finishes in a year.

If we know the average value of our cases, or **average case unit value**, we can make a gross approximation of the amount of income we make in a year. The following is what we refer to as **The Income Formula**:

$$\text{Income} = \text{Average Case Unit Value} \times \text{Throughput Rate}$$

Let's say you make the same amount of money per case with a flat fee model or an hourly billing model. You have the potential to make more money each year because you are now incentivized to spend less time producing the same amount of money. If the value of the case is the same, then you are incentivized to increase efficiency with automation and other tools that make your job easier. This then increases the throughput rate, which in turn, increases income.

### How to Implement an Alternative Fee Arrangement

So, how exactly do you make the switch from an hourly billing model to a flat fee model? It starts with understanding your business. If you have 12 historical examples of a certain case type, you have enough information to go on to come up with a likely value for that case.

Let's say that you've represented twelve uncontested divorces, ranging in total value from \$10,000 to \$25,000 in total value, with most of them in the \$14,000-\$17,000 range. You could, for example, set a fee of \$17,000 which is payable in monthly installments.

Now that you have a flat fee set, you can employ automation and efficiency techniques (covered in our Lean Law Firm Technology Excerpt Chapter) to drive the cost of producing

that value down. You're still providing the same service and the same value. But you're doing it in less time.

In Lean terms, your cycle time goes down, your throughput rate increases, and along with it, your income.

## **The Right Pricing Model for Your Firm**

All in all, there are many factors and boundaries that can go into determining the right pricing model for your firm or practice.

Regardless of whether you believe that hourly billing, or an alternative or flat fee arrangement is best for you firm, your goal should be to ensure that your pricing model is following ethical rules and that your clients understand your model.



## Getting Control of Technology

*The following is an excerpt from “The Lean Law Firm: Run Your Firm Like the World’s Most Profitable & Efficient Businesses”*

Once upon a time, books were a new technology. Using a scroll? Passé, like using a fax machine. Before that, the alphabet was the hot innovation, though it was likely not heralded on stage by a man in a black turtleneck. We don’t think of these things as tech because for many of us, technology is synonymous with computers, smartphones, and all things digital. In truth, what we’re talking about is the application of new ideas for practical purposes. Or—as this book hopefully illustrates—the application of existing ideas in a new way.

Historically, tech can be both a friend and an enemy, as anyone in Chicago during 1871 could attest about the harnessing of fire. Facebook is great at reconnecting people with old friends, but when abused it can spread misinformation and bust up marriages. Smartphones give us the collective knowledge of civilization at our fingertips, but they are so entrancing that many cannot put them down even when speeding down highways.

For these reasons, we approach technology with this simple, overriding question in mind: What tools can you use to build a better business? We are not going to explore the entire

spectrum of legal technology in this chapter. Rather, we will examine which tools we can use to implement Lean principles.

If we are running a Lean law firm, we're going to want to embrace any tool we can get our hands on to streamline operations, gain insight into our business, and track our progress. We're not interested in tinkering for the sake of tinkering; this is about the practical application of technology to the task at hand.

One note: Keeping up with technology is a tall order since it advances so rapidly. The companies that deliver our new wonder-tools are one step away from irrelevance if they do not continue to innovate, so competition drives ever faster and more sophisticated developments. This chapter is therefore a snapshot in time, and it will no doubt appear quaint to future readers. To the lawyers of the future, we know we look like cavemen with our 2018 tech from your vantage point, but give us a break. We're trying our hardest here.

- ✓ **DO:** View technology as a tool that can help you build a better business.
- ✗ **DON'T:** Get caught up in tech because you're simply supposed to, or because things are simply new and exciting. In other words, resist the urge to tinker.
- ✗ **DON'T:** Text while driving.

## Waste Reduction and Efficiency

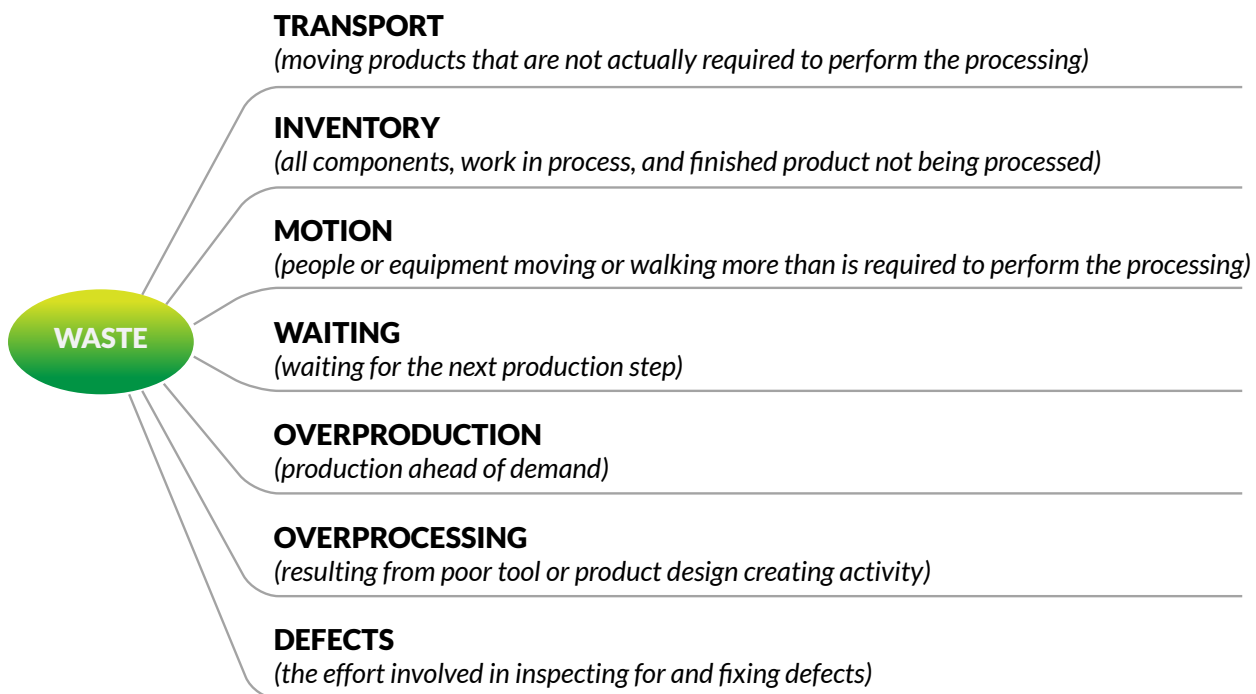
In Lean, waste is bad and must be eliminated whenever possible, which is where technology can really shine. Waste is referred to as *muda* and is broken into two types:

**Muda Type 1:** Non-value-added activity necessary for the end customer. This *muda* should be reduced as much as possible until, if possible, it can be eliminated. An example of this in a law firm would be anything in the law firm that could be automated but isn't, such as document assembly.

**Muda Type 2:** Non-value-added activities for the end customer that are not necessary. You want to eliminate this type of waste altogether. An example of this in a law firm would be any process that does not improve the quality of the product you're providing, such as delays caused by work pileup.

Beyond dividing *muda* into two broad categories, Taiichi Ohno, godfather of Lean, identifies seven forms of waste, depicted as follows:

## MUDA OR WASTE TYPES



In particular, law firms are at risk of Motion, Waiting, and Defect waste. The other forms of waste are manufacturing-related and not as applicable to knowledge industries, but they are worth meditating on to draw parallels to legal work.



- ✓ **DO:** Take some time to identify wasteful practices in your business.
- ✓ **DO:** Identify what actions you take that are wasteful and not adding value, versus wasteful aspects of something you're delivering to a client.

## Going Paperless: Scanning and Document Storage

If you're not running a paperless office, you're neck-deep in *muda*. Paper-related activity is the aspect of your business that is probably most wasteful right now. The difference between a lawyer's desk heaped with stacks of accordion files, like a poor fellow in a stock photograph, versus a clean one with a laptop speaks volumes about efficiency. We've seen a lot of both.

From the law firms we've dealt with, our data suggests that finding a paper file in a multi-lawyer office can take from 2 minutes to 15 minutes. This time includes the trip to the filing system, tracking the file down when it's not where it's supposed to be, and getting distracted along the way. Furthermore, this presumes that you're talking about "the file"—a physical file—meaning that only one person can view it at once.

When you consider that files can be located on a computer filing system or via search in a matter of seconds, and that multiple people can view them at once, you're staring some *muda* straight in the face.

### Scanners

A personal scanner is one of the best investments you can make as a lawyer. If you're in a group of multiple attorneys, you might have a large industrial scanner in a common area. It is still worth having a personal one. You have your own waste bin and laptop, as one practice management adviser told me, so why not your own scanner?

For your needs as a document professional, we recommend against multifunction devices (the ones that copy and print as well). Get a device that does one thing and does it well.

## Recommendations

- The Fujitsu line of ScanSnap scanners is, at this writing, widely considered to be a best-of-breed device, especially the workhorse ix500 (or whatever the modern equivalent is to future readers).
- Fujitsu also sells a less expensive mobile version as well—ix100—for half the price (we highly recommend investing in the faster, larger scanner unless you truly need a mobile solution).
- Jeff Bennion, technology columnist for *Above the Law*, recommends the Epson WorkForce DS-510.

- ✓ **DO:** Invest in a personal desktop scanner.
- ✗ **DON'T:** Get a multifunction device for your scanner. You are a document professional. Use best-of-breed tools whenever possible.

## Document Storage

Once you scan, you need to store. From a storage perspective, there is no reason why you can't digitize your entire office.

We live in a golden age for digital storage: Moore's Law and commoditization have continually pushed hard drive prices lower. If we assume, generously, that the average size of a Microsoft Office document is 300 KB, you can buy a hard drive that stores over 1.3 million of them for \$100. And for readers in the future, we're pretty confident you'll be able to store a bajillion documents for \$50. That is our prediction. Call us Nostradamus.

This is all good news because having global, instant, and simultaneous access to your legal files eliminates one of the biggest forms of *muda* in your law firm: storing and retrieving paper files.

There's also no need to set up your own file server if you're not inclined to. You might be better off using cloud document storage (security concerns will be discussed later in this chapter). When you use a cloud storage service, you can check your documents from anywhere, on any device. You also don't have to buy and maintain a machine for your documents, and maintenance is critical because in today's age, security patches must be applied immediately. Last but not least, most cloud document software allows you to share your documents with others.

For some firms, cloud storage might not be the best option. Compatibility with existing systems might come into play. On-premise solutions are worth pricing out if the number of users in a large firm makes a cloud option economically difficult. If you do wish to set up your own file server, make sure you do so with the initial and ongoing help of an IT professional or consultant. Security is a big deal, and you don't want to get anything wrong.

A question is: How much functionality do you need with your document storage? All cloud storage services allow you to upload documents and organize them into folders. From there, they diverge. Some provide automatic versioning, allow workflow functionality, enable you to associate folders with matters (or sync with software that does), or add billable time to your document.

## Recommendations

- If you want a simple, general-purpose document storage solution, Dropbox and Box work really well.
- If you're tied into the Outlook or Google ecosystem, Microsoft's OneDrive and Google Drive are natural options, respectively.
- If you're using a practice management solution, odds are it provides document storage or integrates with market leaders.
- NetDocuments and Worldox provide more sophisticated document solutions (with a more sophisticated price), including full-text search, workflow, document retention policies, and more.

- ✗ **DON'T:** Pay a lot of money for document storage. It is arguably the most commoditized resource in the computing industry.
- ✗ **DON'T:** Overcomplicate. Don't make your storage process burdensome. Encourage use by making life easy and reducing friction.
- ✓ **DO:** Spend some time defining folder structures and file naming conventions.

## Document Assembly

Document assembly is the automatic creation of a document by merging a template with data. Some practice areas are obvious candidates for this type of automation, such as immigration, estate planning, or trademark law. But even heavily customized law specializations have engagement letters, standard motions, and court filings that are paint-by-numbers and thus candidates for automation.

We commonly observe the wrong way to do things: Law firms produce documents by taking an existing document, copying it, and making changes. This is an error-prone, *muda*-rific process that leads to copy-and-paste mistakes. This method is tedious and slow. In addition, attorneys waste time searching for documents to serve as examples. The copy-and-change technique is suboptimal.

Instead, we recommend investing in automating your document creation process. You or a consultant will need to create template documents, which are the legal forms themselves with placeholders where your variable data will be merged. These templates can be Word documents or in a proprietary format, depending on the technology you choose. Some software, such as Doxsera, HotDocs, or INSZoom, have libraries of templates ready for you to use out of the box.

The first thing you need to do is choose a tool (recommendations follow). The next step is to prioritize the creation of your document templates: Identify which are your most commonly used and time-consuming documents and automate those first.

### **Recommendations**

- One of the most powerful document assembly tools on the market is HotDocs. Because of its power, it is a complex product and may or may not be the right fit for you.
- Another extremely powerful platform is a Microsoft Word add-in called Doxsera/The Form Tool. The Form Tool is a free (yet powerful) version by the makers of Doxsera; the higher-end product, Doxsera, is extremely powerful and can, for example, create multiple different documents (e.g., complaint, interrogatories, certificates of service) from the same data set.
- Contract Express is another stand-alone option.
- More general practice management software such as MyCase, Clio, and Rocket Matter allow you to upload Word templates with merge fields, which can be configured for “if-then-else” scenarios.
- Heavy document creation practice areas such as trust and estates, immigration, and intellectual property have software and templates specific to them

- ✗ **DON'T:** Create documents by the copy-and-change method. You're going to make mistakes and embarrass yourself in front of your client.
- ✓ **DO:** Realize that getting started with document assembly requires an investment in either your time or your money that will pay huge dividends later.
- ✓ **DO:** Start by automating your most frequently used documents.
- ✓ **DO:** Seriously consider hiring someone to create the document templates for you. It can be laborious, so it might be the kind of thing you want to leave to someone who's done it hundreds of times.

## Invoicing and Collections

Invoicing and collections is a huge form of waste for law firms and needs to be tackled aggressively. Most law firms have terrible billing practices and, on average, collect on only 71 percent of the work they perform, according to a Georgetown Law study. The smaller and less standardized a law firm is, the worse performance tends to be.

There are many reasons for law firms leaving money on the table, ranging from poor billing practices and the unpalatable nature of asking clients for money to a lack of investment in good technology.

The good news is that we can improve the payment process by breaking it down into discrete steps: tracking time (especially for billable time practices but also important for others as a form of measurement), generating invoices, and collecting payment. The less friction introduced into each of these steps, the better.

For billable-hour professionals (and those who are seeking to track their time on cases), selecting a tool that reduces the burden of time tracking is fundamental; otherwise you'll find yourself sorting through legal pads, e-mails, and calendar events trying to reconstitute your month. You'll procrastinate on finishing this horrible exercise, leading to delayed invoices, which in turn leads to reduced payments. When you finally get around to it, you'll likely underbill for services. *Muda-city.*

Generating and sending invoices is the next step in the process. Most firms still rely on the following steps: creating invoices, printing them, folding them, stuffing them into stamped envelopes, and mailing them.

Going back to Lean principles and our definition of *muda*, is there anything in those steps that adds value to the client? Many clients are perfectly fine with and would even prefer an electronic invoice. Selecting a program that can send electronic invoices and can batch-bill (send out all bills at once) greatly reduces time spent and resources required for this critical piece of your business.

The final step is the collections process, possibly the weakest link in a law firm's revenue production chain. Calling the people you're assisting and asking for money is a tall order, and it gets in the way of legal work. In my experience working with thousands of law firms, the highest percentage of invoices collected I've ever seen is 92 percent, pulled off by a husband-and-wife team where the husband performed the legal work and the wife was a regimented bookkeeper.

For collections, your first order of business is finding a tool that can help you discern what percentage of billable work you're collecting (see Chapter 4 on KPIs for more information about financial reports).

The next step is to move toward client payment automation. This is accomplished by signing up with a payment processor who can help you safely keep credit card information (or bank account information) on file. This arrangement, which can be specified in an engagement letter, allows you to automatically collect from clients when legal work is performed. In this way, you can also set up payment plans and recurring payments, which automate collections and provide a predictable stream of revenue.

Payment processing is not limited to credit cards. Clients, especially large enterprise ones or general counsel, may wish to pay with bank account information. In that case, ask your payment processor if it offers ACH (Automated Clearing House) or e-check processing.

If fully automated payment processing is not an option for your practice, at least giving clients the ability to pay their bills online will reduce your cash collection cycle. Online payments are faster and more convenient for many people than it is to cut a check. Additionally, many people want to build rewards points by paying all bills with credit cards.

### Recommendations

- Some of the most powerful tools on the market for time and billing are the cloud-based legal practice management platforms, including Rocket Matter, Clio, and MyCase.
- Of the traditional, noncloud platforms, market leaders include PC Law and Tabs 3. We suggest hiring a knowledgeable consultant to assist with the installation and maintenance of such systems.
- Find a payment processor such as LawPay or LexCharge that specializes in the legal profession, understands the ins and outs of trust and operating accounts, and can help you set up payment plans and recurring billing.

- ✓ **DO:** Understand that your process and workflow for getting paid for your work are as important as the systems you invest in. Spend time thinking through and standardizing a solid, repeatable process.
- ✓ **DO:** Make sure you track your collection percentage.
- ✓ **DO:** Reduce friction in all three aspects of getting paid: (1) time tracking (if applicable), (2) invoicing, and (3) collections.
- ✓ **DO:** Make your collections more predictable and streamlined with credit cards, ACH, e-checks, payment plans, and recurring billing.
- ✗ **DON'T:** Embrace technology that will in any way delay sending out invoices. The single most important factor in collecting what you're owed is timely billing.



## Practice Management Software

Law firms can survive without legal practice management software. Almost all larger law firms choose not to, but many small firms forgo this critical tool. However, when law firms duct-tape together their own systems from Word, Excel, and QuickBooks, they are very inefficient and create *muchísima muda*.

The advantage law firms gain over competitors when they embrace practice management software is that their businesses run better. All case information is in one place and easy to retrieve. When clients call in, you can easily let them know all the particulars of a case and where they stand in their invoicing.

Calendar events, tasks, documents, and notes are all associated with matters, available quickly to anyone (with permission to see them). They have client relationship managers (CRMs) so that you can keep track of client and lead information and maintain notes about them. Deadlines and to-do items can be quickly calculated and scheduled with matter templates or calendar software.

Most practice management software providers offer solutions for document assembly, as we described earlier. Cloud-based programs often feature portals or other online sharing features so that clients can exchange documents, review and pay invoices, and keep up to speed with their cases.

Some practice management systems come with integrated accounting features, including tracking and balancing trust accounts. Many programs track time and contain an integrated invoicing program. Others do not; they instead have a separate program that handles the back-office functionality.

If you choose not to use practice management software, observe that the disorganization that comes with stitching together different systems can negatively affect relationships with clients. Susan Cartier Libel, creator of Solo Practice University, blogged about an episode with a lawyer in which a client relationship was destroyed because of bad organizational practices due to a lack of practice management software.

“Law practice management software is often touted as the holy grail for lawyers, a way to be extremely efficient and effective when organizing your back office,” she writes on her blog. “It’s mobile, it’s time saving, it does everything if you will learn how to use it and let it perform its magic.”

## Recommendations

- There are many cloud-based practice management solutions. The largest three and the ones that have stood the test of time are Rocket Matter, Clio, and MyCase.
- Likewise, there are many on-premise practice management tools to consider. These include Time Matters, Practice Master, and ProLaw.
- A full list of practice management software is maintained by the ABA’s Law Technology Resource Center (LTRC). You can access it at <http://www.leanlawfirmbook.com/pm-software>. See also <http://www.leanlawfirmbook.com/aba-practice-management-software>.

- ✓ **DO:** Seek out a practice management system to run your practice and keep you organized.
- ✗ **DON’T:** Assemble a duct-taped case management system consisting of Word, Excel, QuickBooks, and other disparate standard office systems.
- ✓ **DO:** Spend time training in your new practice management system. Strongly consider bringing in a paid consultant to help you and your staff know the system.
- ✓ **DO:** Consider whether you want to maintain the software and hardware for your system in your own office or whether you would like to use a cloud-based system.
- ✓ **DO:** If you want desktop-based software but don’t want the headache of installing and maintaining your own server, ask a consultant about a hybrid

# Glossary

**Average Case Unit Value (ACUV)** – The average monetary value of all case units.

**Case Unit** – A case unit models the activity for one potential outcome for a matter. For example, if a plaintiff is suing four defendants, even though this may be one matter, there are four possible outcomes, so we model these as independent case units.

**Constraint** – In Lean, a constraint limits throughput in part of your process. Constraints lead to lengthened cycle times and decreased throughput rates...and consequently reduced revenues.

**Cycle Time** – The amount of time it takes to complete a matter from start to finish. “Start” means an engagement letter is signed, and you’re doing work for the client. “Finish” means money is collected, and the case is closed.

**Income Formula** – A simple revenue forecast:  $\text{Income} = \text{Average Case Unit Value} \times \text{Throughput Rate}$ . Income can be increased by increasing the throughput rate or ACUV.

**Kanban Board** – A physical or virtual board that models, in left-to-right fashion, the progression of a case or process. The board is divided into vertical swim lanes that correspond to a stage of a process, from the start of the process to its completion. A case unit is represented on a physical or virtual index card that traverses the swim lanes.

**Muda** – A Japanese term that means “waste.” In Lean, waste is defined as any action that does not add direct or indirect value for a client. For example, legal research adds value. Spending a day on billing is waste. Attending CLE adds indirect value, as you cannot help your client without it.

**Throughput Rate** – Describes how many case units you can finish in a given year. If you finish 100 cases in a year, then your throughput rate is 100. Reducing cycle time increases throughput rate.



## About Rocket Matter

Rocket Matter helps law firms offer better client service and also increase revenues by more than 20%. The company was the first cloud-based legal practice management software on the market, landing its first client in 2007. It has been a leader ever since.

Rocket Matter has the most powerful, easy-to-use time and billing software in the industry. Also, when law firms want to make more money, go paperless, or increase confidence in their trust accounting, Rocket Matter helps them achieve those goals. With award-winning customer service based in the United States, it's no wonder thousands of law firms swear by Rocket Matter.

# Ready to run a leaner law firm?



Schedule a free personalized demo and see how Rocket Matter can help you run a Lean law firm!

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