



## Timekeeping and Billing Systems

There are a number of factors involved with managing the overall financial picture of a firm. Time and billing is only one piece of that. Many software applications on the market are specifically designed to manage your time and billing only, not your overall ledger. In other words, they take care of your Accounts Receivable, but what about the rest of your accounting? If you choose a program that does only time and billing, it is important to be aware of whether or not it integrates with your other accounting system, or else you will find yourself unable to run the financial reports you desire, and worse, potentially double-entering data. This increases room for error, as well as being inefficient.

Likewise, if you are looking at case management software, it is important to think about its ability to integrate with your time and billing system and overall accounting package. If your firm is forced to enter financial data in more than one system, or open matters in more than one system, then it may be time to think about a more streamlined and integrated approach, because over time that duplicate entry becomes a huge source of lost productivity.

Your time & billing software, as well as your accounting software are collectively known as your “back office” and they are the core of your business and cash flow. One of the strengths of a legal back office program is that it is geared specifically to the needs of a law practice and can be customized for the way different practice areas run. For instance, the ability to customize the way invoices look is critical for many firms. An attorney who does primarily flat fee work won’t necessarily format their bills the same way an hourly attorney will.

Other examples of customization may include the ability to use fee compensation rules or “splits” to break out the way attorneys are credited for time on their files. Some firms may want finance charges assessed for past due balances and others may not. Likewise, some firms need the ability to split bills between multiple clients (e.g. estate work that needs to be split equally between four beneficiaries) and that feature is available in legal time & billing packages.

### Using Your Time & Billing Effectively

One of the key elements within your back office product, particularly in this economy, is to know where you are making the most money and where you are making the least or losing money. If you don’t know the types of matters that make the firm the most profit, perhaps you need to review your back office procedures more thoroughly.

Many lawyers who practice flat fee and/or contingency work feel it is unnecessary to keep track of their time; we would respectfully disagree with that theory. If you do not track time on these files, how do you know your effective hourly rate? For instance, if an attorney at your firm agrees to a \$5,000 flat fee on a matter, and spends 10 hours working on the file, versus spending 50 hours working on that file, there is a huge difference in his or her effective hourly rate. That information is valuable to making financial decisions for your firm, particularly if you are not a boutique firm, but rather practice several areas of law.

An additional argument for tracking your time on all files, including flat fee and contingent files, is the obligation to provide an accounting of your time if the “reasonableness” of your fee is ever questioned.

Most time and billing software packages have a report identifying profit by Area of Practice as well as timekeeper. These reports will help you to see if you are consistently losing money on certain Areas of Practice. If you are, then perhaps you need to raise your flat fee rate for some things, or shift your practice to more profitable practice areas, particularly if you are a firm that handles many matter types.

Having this type of information may also give you the knowledge to make better marketing decisions. For example, if you practice Family Law, Criminal Law, and Personal Injury Law, and your effective hourly rate is highest in Family Law, you may want to spend more marketing dollars in the Family Law area.

Time and billing software will also give you information about your timekeepers and allow you to set better goals for them. Don’t assume everyone is functioning at the same level. The most productive timekeepers should not be rewarded at the same level someone operating at a substandard level is. Use your back office reports to determine which timekeepers have the highest overhead to income ratio, which timekeepers are bringing the most new clients to the firm, etc.

You can also track monthly billings and see trends like increasing or decreasing Work in Progress and Accounts Receivable. This can help the firm plan better from a cash flow perspective and redirect resources as necessary. If billables are consistently decreasing in a particular area of practice, don’t wait until it is too late to spot that trend and do something about it.