

# Investment needs for law firms – from cash cow to piggy bank? (changes in the financial needs of the law firms)

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# In these difficult economic times, a greater revenue to the regular cash flow in a law firm is a must to stay relevant

“We are seeing an increase in the number and the size of loans for partners’ capital contributions,” McKenney says. “In a historical context, we’ve analyzed the industry by size of firm—as in small, medium or large—and we found that regardless of size, we saw there was a consistent pattern of firms increasing their demands for contributions from equity partners.”

“Between 2004 and 2007, contributions averaged between 20 and 25 percent of partners’ income”, according to Citibank’s data. Now post 2008 recession, the average has increased to 35% according to Edwin Reeser, an Altadena, Calif., sole practitioner, former BigLaw partner and frequent author of articles on law firm management” (The Lion Group - A National Legal Recruiting Firm - Partner and Law Firm Capital Contribution Trends, 2016).

# The reasons why it is necessary to have a greater revenue?

# Slowing of client payment of bills

Most of the clients eventually pay, however, habitual slow payments get in the way of various firm operations as it keeps the cash flow on hold. “No matter what type of business you operate, you’re bound to experience them. In fact, a survey released by PaySimple a few years ago found that 80% of small businesses struggle with receiving payments past their due dates. And a National Federation of Independent Business survey revealed that approximately 64% of the small businesses surveyed reported having clients who didn’t pay invoices for at least 60 days” (Nellie Akalp, Contributor – Forbes.com, 2016).



# The funding of recent law school hires

Newcomers have a lot of potential to benefit the firm, yet it takes time for them to learn and to become a valuable part of one's team. The graduates do not increase the profit right away. It is known, that "the legal industry is notoriously difficult to break into as an aspiring lawyer. Even after securing that crucial first job, progressing up the ladder in a law firm can also be an arduous journey—while reaching the partnership realm comes with its own steep challenges" (Thompson Reuters, 2018). Many have tried, only few have succeeded. It is a risk that a firm has to take and that risk costs.



# The fall-off in the volume of profitable transactional work

The more intelligent the client is, the more he sees the automatic aspects of the job. Although it has to be done and it is time consuming, it is not that kind of work a firm could charge for. “The amount of work clients are willing to pay a premium for is shrinking” (David Wilkins, Harvard Law School).



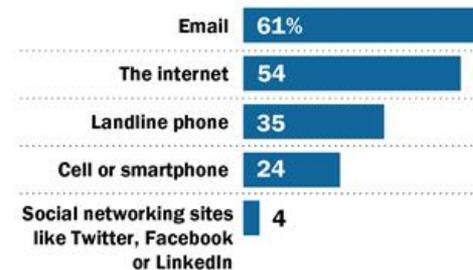
# The cost of technology

Clients hope a law firm could take on the tasks with a superior efficiency at a low cost. To meet the requirements a firm needs to own all the advanced technology with the latest software installed. As the chart shows, email and the Internet are two integral tools for a worker. Numbers of social networking are rapidly increasing, too. To be able to use these tools to the fullest, the technology one is using has to be modern and powerful at the same time and it does not come cheap.



## Email and the internet top the list of important tools for online workers

*Percent of working internet users who say each is "very important" to doing their job ...*



Source: September 2014 Panel Survey

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# The use of Artificial Intelligence in law firms

“In today’s world, data is growing explosively. While that massive store of data contains correspondingly voluminous and useful information—especially for the practice of law—it also takes massive time to analyze. And then there’s the monotony, boredom, and frustration felt by humans who are trying to plow through a Sisyphean task, and the ever-increasing need for speed in response to client, court, and regulatory agency demands. . . Artificial intelligence refers to computer software and systems that don’t just do tasks they’ve been programmed for in advance—they actually *learn* as they go, improving their performance through feedback. These programs can quickly learn to complete data-intensive tasks that were previously relegated to bored and weary humans. By recognizing patterns in the relationships between words or data points, computers learn how to identify relevant information, recognize mistakes, and spot inconsistencies—all faster, and usually better, than humans do” (Avaneesh Marwaha, Seven Benefits of Artificial Intelligence for Law Firms, 2017). Although the tendencies have shown that investing in AI leads to a greater revenue, it is not a secret that the investment has to be a massive one and it takes time for the profit to come. It definitely leaves a mark on the firm’s cash flow.



# Landing and maintaining big clients, creating an international network

It seems that landing a big client might change the course of the law firm and generate an enormous profit and most of the time it is truth. However, landing and maintaining one is a complicated task that requires a lot of patience and a large revenue. If one wants to play with the big players, then it has to become one of them itself. It cannot be expected that an international big client will act like a local business unit, consequently, a law firm cannot treat that client like one. A law firm has to put itself out there, make a great first impression, catch the attention of a client and keep that client satisfied. It might consume a major part of the firm's cash flow, but it might be the investment that would benefit firm drastically and generate a magnificent income.



# The need to increase a chance for well-managed firms to attract partners

Firms tend to look for partners who control profitable client business. To draw one's attention a firm has to be ready to offer something valuable, to show a strong financial position. These times, many firms are seeking to attract partners who have already made a name for themselves. Lateral hiring is a specific way of hiring a specialist to fill a specific role. Respectively, adequate reward is a must to keep that specialist operating successfully.



**To conclude,** slow payments, the hiring of recent graduates, non-profitable transactional operations, the cost of technology and the need to attract well-established partners influences the financial changes in the law firms.

**These days, it is necessary to have a greater revenue**

