

CONTROLLING LAW FIRM EXPENSES FOR NEW LAW FIRMS

By: Carl A. Taylor III

When asked about the key to a successful business, Warren Buffett once replied: "Rule Number one: never lose money. Rule Number two, never forget rule number one." Or to paraphrase what a mentor of mine once advised when I started my firm: "Remember that it's not all about gross revenue. The most important thing is the difference between your gross revenue and your expenses."

For those with smaller practices or those just starting their firms or considering such an endeavor, there is great power in controlling expenses. The expenses may be the only thing solely under your control for the first year or so of your practice, particularly if you start with few or no clients. Controlling firm expenses is not a topic that is discussed often between attorneys, but it's an important factor for every firm to consider, large or small. I serve as a Trustee of the Bar Association and Co-Chair of the Somerset County Young Lawyer's Division. More importantly, I started my own firm on my 28th birthday and for three years learned through trial and error what expenses were absolutely necessary. Accordingly, this article is particularly addressed to newer attorneys considering solo practice. Even if you're an associate, however, it's important to be mindful of the firm's bottom line and to not be wasteful in your personal practices. Perhaps the views I express herein are not a fit for every attorney, but they were hard-earned lessons that allowed me to start a firm with no clients and to cover my startup costs within a quarter and to thereafter produce a net profit in almost every month.

Although I am no longer a solo attorney—having joined Cooper & Rodgers this past June as an associate where I currently serve as Somerset County Deputy County Counsel and continue to serve private clients—it is currently tax season and I've been in the process of finalizing my books on the third and final year of my practice. This process has been a great reminder of what I did right and wrong on the financial end of running my law practice. I note that no two businesses are the same, but hope that this "case study" of my practice will be useful as a comparison for those just starting out or considering creating a solo or small firm practice. The expenses should, of course, be consistent with the goals of the enterprise.

Startup Costs

Regarding startup costs, they should by necessity be minimal for most new firms that have few if any initial clients. A computer, a copier/printer, a dedicated telephone line, perhaps a small office space, the internet, and sufficient insurance may be all that is required. I found the purchase of a nice dedicated scanner to be worth the investment. I would imagine that most young/newer attorneys can have their firm up and running for less than \$10,000.00 to start with additional monthly expenses of approximately \$1,500.00. This is particularly true if you're in the advantageous position of having a spouse that can provide family health insurance. However, the most important consideration is truly not start-up costs, but rather ongoing monthly expenses. When you're first

starting out, you do not want to be tied down to too many revolving monthly expenses. Having too many expenses eats into what are likely in the beginning to be low revenue streams. If a new firm is overextended, an attorney may find himself or herself taking on the wrong kinds of clients or cases outside their knowledge base. Here are a few methods I used to cut down on monthly expenses when I was a solo attorney:

Fax number – I used an online fax number to avoid paying for another telephone line. Companies like E-Fax offer monthly unlimited online faxing for approximately \$16.00 per month. Faxes come to your email account as PDF's. A young attorney can scan and use their email account to then respond to faxes. The company will provide a dedicated fax number and there's no need to purchase a fax machine, an additional phone line, or the expenses associated with operating a fax machine.

Office space – There are many "virtual" or office time-sharing arrangements that I cannot speak to, as I always had a dedicated office space. Procuring office space from an attorney with potential overflow work is helpful. It's important to be mindful of how much space is actually required. If a young attorney outgrow the space later on then that's merely a good problem to have.

Legal research/books – There are now free legal research options such as Fastcase through the State Bar Association. Even Google Scholar can be a useful legal research tool. The Somerset County Courthouse has a legal library and regular hours. I found it useful, in time, to negotiate the lowest price possible for LexisNexis (they offered a lower price to me than competitors but your mileage may vary). When just starting out, it's also helpful to be resourceful whenever possible. A larger firm once put out a notice that they were discarding their prior editions of the New Jersey Practice Series and the New Jersey Statutes. I was not too proud to reach out to them and take certain of those books off their hands. They were happy to have space for the newest additions and I was grateful to have almost brand-new books as a decent starting point for addressing legal issues.

Memberships – It may make sense to pay less for an inactive bar license in a state where an attorney is barred but does not practice. At least every six months look to all memberships and see if their cost exceeds their utility. In fact, it's important to look to all expenses on a regular basis to see what is necessary or not. I have found that membership in the Somerset County Bar Association, for instance, has proven to have much more utility for me than membership in more national associations.

Incorporation – I'm not an accountant, but a solo practice may not find much benefit from incorporating as a LLC. I did so incorporate, but it's unlikely this will ultimately protect a solo from malpractice issues. In hindsight, I'd argue it's probably a better utility to register as a sole proprietorship and utilize additional funds to acquire better or more insurance. Even when you close your limited liability company the State charges a few hundred dollars, as I was recently reminded.

Office supplies – You may find that buying your supplies online at Amazon may be the least expensive method. You should shop around for supplies and only order when necessary. Like with

anything, buying regularly used items in when there is a good sale is cost-effective. For instance, a firm is always going to need more printer ink. Specialty stores targeting our profession might be more expensive than Amazon or Staples Online. Saving money on everything from paper towels to coffee all adds to the bottom line.

Credit card – Look not only to rewards but also to what business credit card does not come with an annual fee. As for receipt of credit card payments, simple options such as “Square credit cards” carry no monthly minimums or fees and take a reasonable percentage of monies charged. They work through an “i-phone.” Such options are becoming increasingly common. As with anything, “cloud” based security and providing appropriate language pertaining to same in retainer agreements is important.

Paper and letterhead – It is common sense, but paper and ink costs really add up over the course of a year. I would therefore recommend young attorneys not use “good” paper to merely scan and email or to fax documents. Although some firms pay for letterhead from a professional printer, many others simply create their letterhead through Microsoft Word or similar programs. When possible, read off the screen rather than printing onto paper. Also, a young solo should probably craft retainer agreements so that certain expenses such as large printing jobs will be passed-through to your clients. This is, in fact, a common provision in most attorneys’ retainer agreements.

Insurance – Just like with personal insurance, shopping around when the business is first created and then continuing to shop around every couple of years to make sure fees do not increase beyond fair market price can save hundreds or thousands of dollars.

CLE’s – Try to teach CLE’s when possible as you will receive double-credit. Local CLE programs may prove less expensive. Also, large symposium type events or the Somerset County Bar CLE Days may provide most of your credits at a lower per-credit price.

Website – New firms may purchase domain names (website address) for their firms for less than \$10.00 from a company such as Godaddy.com. You may then pay another \$100.00 or less per year for a dedicated email address and web hosting. Even with no prior programming knowledge, one should be able to create a website utilizing a free “app” such as WordPress. It may be a case of being “penny wise, pound foolish,” but when I started my firm, I did not pay for a professional web design. That said, I never heard any negative feedback about my website and it was easy for me to post articles or to update the website as needed. In full disclosure, however, I obtained few if any clients directly from my website.

Accounting – Learning how to become proficient with Quickbooks can save a great deal of money and let you know where your firm stands financially. Clearly one of the most important things for a solo to learn is proper trust accounting. Even if this work is delegated, every firm owner must ensure that proper trust and business account procedures are in place and are being followed. An informative book on this subject is NJICLE’s Trust and Business Accounting for Attorneys, by David Johnson, Esq., Director of Attorney Ethics, New Jersey Supreme Court.

Vendors – A new solo may think that they need a professional logo when they first start out, but it's more important to be marketing yourself, as you essentially are your business. Attend events, make connections, and meet up with colleagues and potential referral resources for lunch. There are all types of vendors, including those who may assist with marketing and advertising. I personally emphasized word of mouth advertising as I had more time than money when I started my firm. I understand many firms, however, find great success in hiring vendors for marketing and/or utilizing a percentage of revenue for advertising purposes. Much like with accounting, it's important to remember that attorneys are ultimately responsible for complying with applicable codes of ethics and attorney advertising.

Attorney collateral account – I believe it's important to establish an attorney collateral account with the state judiciary as soon as a new firm possesses sufficient funds to open such an account. This saves time spent cutting individual checks and worrying about paying the exact amount due for specific filings.

Taxes – Be mindful of profits and ensure sufficient monies are placed aside to pay federal and state taxes. Once a business is established and generating a steady cash flow (with new cases and accounts receivable) the owner of that business will likely dread the payment of quarterly tax payments, but at that time will also enjoy a better understanding of how much to put aside each quarter. Underestimating one's taxes can make a modicum of solo success feel more like a curse than a step forward. One does not want to be surprised come April. Solo attorneys should also be aware of their options for opening a retirement account. Solos should be mindful of funding their retirement. Doing so should also help decrease taxes. Solos can look into a SEP-IRA or Solo 401k (or other such instruments) to see if their firm qualifies and if so, how much can be put aside. Solos will have no employer covering a portion of social security taxes, so they will likely find they are paying a higher percentage of taxes than ever imagined. If things start going even fairly well, taxes will be by far the number one expense a firm has, with the potential exception of staff.

Staff – If one is starting a new firm with no clients, they may decide (like I did) that it's not the right time to bring on regular staff. One can then scale-up as their firm grows. It will likely be unfair to both you and your staff if staff is hired but there is insufficient work. Hidden expenses such as worker's compensation insurance may further strain limited resources. Scaling up will come naturally with time as necessary. Premature expansion can be a great impediment of success. At the same time, careful balancing must be conducted to ensure an attorney is competently tending to all client files and performing appropriate due diligence for all matters.

Cell phone – Many attorneys now consider "smart phones" to be a necessity. The cost of such plans can easily reach \$80.00-\$120.00 per month. Utilizing alternate plans such as Republican Wireless or "paying as you go," can provide such services for less than \$30.00 per month. This may not provide the trendiest new phone, but so long as one can obtain emails and voicemail messages, then that might be a worthwhile tradeoff to maximize firm profitability.

Miscellaneous – It might prove more advantageous for young attorneys to create handbooks on their practice areas of law and place them in the reception room rather than to pay each month for subscriptions to magazines. This could even serve as an inexpensive form of marketing, as one can encourage clients to take the pamphlets home with them. In the beginning, there may be so few clients that clients and prospective clients will not be waiting in a reception area for very long, if at all. There might not even be a dedicated reception area. Be ruthless with expenses to allow one's firm sufficient time to grow.

Case Management – In the beginning—particularly if a young attorney employs no staff—a new firm might run well on merely Outlook for emails and a basic calendaring system. In time, a practice management system (there are many to choose from, some are even “cloud based”) might be essential for coordinating client files, maintaining contact lists, documents, and invoicing. This is an important decision as the wrong choice in a case management system can be a large financial setback.

This above list is by no means exhaustive, but hopefully is illustrative of what types of expenses are created when starting a new firm and what types of expenses can be cut or reduced without impacting client services. This baseline can then be scaled up as a young attorney's practice grows. Creating good spending habits early in a firm's life will help engender best practices for an attorney to utilize throughout their career.