

Financing Upgrades in a Downturn

With the business cycle in a downturn/recession, this is a good time to re-examine the economics of software upgrades. The “easy” decision of course is simply to postpone everything. But is this always the wisest decision? What considerations should you use to make a decision?

This article looks beyond the FUD factor (“Fear, Uncertainty and Doubt”) to examine the economics of upgrading and/or expanding your software.

Optimizing Existing Software

One of the first options is to get more out of the software you currently have. Most firms do not make an ongoing effort to do this. Some things you can do include:

- Have a consultant or trainer (or your in-house “guru”) give brown-bag lunch sessions on how to get the most out of the programs you are currently using. “Tips & Tricks” sessions can be extremely productive. This can give you meaningful productivity gains with very little effort.
- Review options for additional automation using existing programs. Expand your use of Word or WordPerfect templates. Expand your use of case management programs such as Amicus or

Time Matters to automate the production of standard documents (such as retainer letters), and integrate your e-mail programs. Usually it is best to find a consultant/trainer you can trust to do this since they will have a broader knowledge base of what other firms have done and may be able to offer additional options.

Upgrades

With an average product cycle of 18-24 months, and the reduction in the cost of software, companies are relying on upgrades to increase profitability. Do you really need these upgrades? Generally speaking, upgrades will not produce any significant time savings to offset their cost. Therefore, assuming that your existing software is satisfactory, the two main reasons to upgrade are 1) for compatibility with other software/operating systems (for example, Word 95 will no longer integrate with many programs), and 2) if the new software adds functionality that will be extremely useful, even if it does not produce major time savings. Thus for example, WordPerfect 9 offers two major reasons for upgrading from WordPerfect 8: better convertibility with Word, and the ability to save a document as a PDF file (thus avoiding the entire conversion issue, and also ensuring that the recipient cannot edit the text without your knowledge).

Implementing New Programs

The real financial dilemma comes when you consider implementing new programs, such as case management, document management, e-mail, faxing from the desktop, document automation using programs such as HotDocs, and various specialty software (litigation support, family law, estate planning, real estate closings).

The initial reaction to the cost of purchasing, configuring, installing and training your staff on these programs is frequently one of sticker shock. But do a serious review of the potential benefits. Base your review on conservative assumptions concerning advantages and high-end assumptions concerning costs. Your firm’s numbers

may vary from the following, but the principles are the same: do the calculations based on your specific configuration.

Take a firm with 5 attorneys and 7 staff that is looking at a case management program. At present, without such a program, a considerable amount of time is lost looking for files (at the bottom of the pile), hunting for a paper calendar, phone number, document, etc. There is a general consensus that implementing such a program will save the average user at least 10 minutes a day.

So our 5 attorneys each save 50 minutes per week, or 250 minutes total. Say 4 hours. The 7 staff members each save 50 minutes per week, or 350 minutes total. Say 6 hours. Assuming the attorneys bill at \$150 per hour (a conservative assumption) and the staff time is calculated at \$20 per hour, the firm saves (4hrs. x \$150) + (6hrs. x \$20) or \$720 per week. Based on 48 weeks per year (not counting vacations or time off), this firm will save \$34,560 per year by implementing the new software!

Now measure this against the cost of the software and consulting time for configuration, implementation and training. Depending on which case management version the firm chooses, the software is likely to cost \$2,000-5,000 for 12 users. Assume that data needs to be converted from a previous version (frequently one of the more expensive parts of implementing a new system) and that the firm wants to do some initial document assembly routines to help automate the production of documents. In addition, assume the firm wants to do a thorough job on training (also one of the most expensive aspects of implementation). The overall consulting costs could easily reach \$8-10,000 for this firm. So the firm’s total cost is likely to be in the neighborhood of \$10,000-\$15,000.

In this example, the firm will recoup its its expenses in less than 6 months ($\$15,000 \div \$34,560 \times 12$). I hear the objection already: you can’t factor in any savings for Attorney X, who barely even knows how to turn on his computer. The fact is that Attorney X is presently losing time waiting for someone else to find the file, get the phone number, and so on. By enabling his assistants to retrieve information more

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About This Newsletter

Heckman Consulting is a systems integration firm specializing in the legal market. John Heckman has over 18 years experience in the legal community. This newsletter is published periodically as a service to our clients and others. It contains items we find of interest. The newsletter is on the Metz Software web site at: www.metz.com/partners/heckman.htm

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Upgrades *(Continued)*

efficiently, new software will reduce the time he currently spends waiting to get information from others. You might factor in "half-savings" for those attorneys. On the other hand, his assistant's time savings are increased. However you modify the numbers to fit your firm's circumstances, your firm is likely to recoup its expenses in under 6 months—and of course to go on saving about \$3,000 per month thereafter. A larger number of users generally means a lower per-user cost of implementation, and hence even increased savings.

I see the potential savings every time I call to set up an appointment for case management software:

Attorney: "Yes, we need to set up an appointment. Let me give you my secretary." (Wait)

Secretary: "Oh, yes. Let me get his book." (Wait)

The appointment is made typically after 5 to 7 minutes of hold time, which will disappear with calendaring software.

But, you might object, this is just "soft" dollars, *i.e.*, putative additional time billed available due to time savings. Therefore it isn't very real. There are also "hard" dollars in this equation, that is, additional time captured due to using a case management program. Whereas having additional time available may or may not result in additional billable hours, capturing additional time is "hard" dollars, that is, actual cash in hand.

If an attorney using case management captures an additional 5% time (and normal estimates are usually closer to 10%), based on billing 1,500 hours per year, then he actually bills an additional 75 hours per year. At \$150 per hour, this is over \$10,000

additional revenue per attorney per year.

Equally important is a point many people overlook when doing this sort of analysis. It also applies in reverse: firms that do not implement time-saving software are losing thousands of dollars per year. In the not-so-long term this will make the firm less competitive, both economically and due to the inability to retain the best people, who are frequently looking for a greater degree of automation than the firm is offering.

The argument that "things are working fine now" most often fails to take these issues into account.

Smart Leasing

"That almost sounds plausible," you may say, "but we just don't have the cash flow to front \$15,000." That is where a leasing option can be extremely cost effective. Leases offered by computer vendors are likely to cost 25-30% more than the original purchase price and are generally not advantageous. There are much better options—what technologist Ross Kodner terms "smart leasing" from dedicated leasing companies that will lease both the software and the consulting time. Many of them offer "staggered" leases so that if you add equipment, all the leases can expire at the same time.

In addition, you can sharply reduce your monthly payment by accepting a "more than nominal" buyout at the end of the lease, particularly for hardware. This is desirable because by the end of a three-year lease, you probably won't want the equipment anyway: it will be hopeless obsolete. How many people are "getting by" using Pentium 166's bought three years ago? By using a mixed approach (nominal buyout on consulting time; higher buyout on PCs), you can construct a lease that meets your needs, lowers your monthly

payments, and saves you significant amounts in tax deductions.

Technology Planning

Plans for hardware and software acquisitions should be combined with a technology plan/budget. Basically, a firm should count on replacing and/or upgrading its equipment every three to four years. Even if you don't actually set money aside, you need to be aware that on average approximately a quarter to a third of your equipment and software needs to be replaced every year.

Conclusion

"But will software X really perform all these miracles?" All I can say in response to this quite legitimate question is that when I check back six months after implementing Amicus or Time Matters, Worldox or similar time-saving software, many users who were skeptical if not outright hostile to case management or other new software have become its most ardent supporters and wonder how they ever did without it. In many respects, the issue is not "can we afford to implement this software," but "can we afford *not* to implement it." ■

More ASP Issues

Our recent issues on the potential pitfalls of using Internet-only ASP's were recently confirmed with the failure of NorthPoint communications. Many firms that were using NorthPoint were simply left without Internet access and has to scramble to make do. If you go the ASP route, make sure you have adequate backup plans and alternative service available. Other things being equal, you would do well to choose a combined desktop/ASP solution. ■

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