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## **ANTICIPATING FUTURE DATA NEEDS AT STARTUP**

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I made a statement during a recent webinar which stirred the interest of several participants who contacted me afterward for elaboration. It's not the first time I've made the statement, and it won't be the last, because it's a good business practice.

That statement prompted me to draft this article about it, to get on everyone's radar screen and include it in the resource I send to members who are starting a new practice.

The simple truth is that in the absence of good data, one cannot make smart business decisions. And the easiest way to ensure you will have data available when you need it, is to set up your record-keeping systems properly from day one. And thereafter, every time your record-keeping system is changed, you should review what data you are capturing, consider what your needs in the future might be and make any necessary tweaks during setup.

You need to set up your information management systems, anyway. It's just a question of thinking it through a little more thoroughly and strategically. Very often—too often—the need for data does not make itself known until it is too late to collect it in any meaningful or helpful way. The trick is to capture as much meaningful information as possible up front, so that when you start to ask important questions, you can analyze the information to identify the best answers.

Collecting information doesn't mean you have to look at it when it's not relevant or important. It just means that if and when you need it, it will be there.

This is where I can help you, having assisted firms at every stage, from inception to closing, succession or sale. I know what information firms require at each phase of their life cycle and what they need when they want to try new things

or implement new strategies. I also know the types of information firms repeatedly struggle to create after-the-fact — if they can at all — which would have been so easy to have collected all along.

Here are a few examples:

- **The branch office:** When a small firm opens a satellite office, it usually makes no major change to the bookkeeping chart of accounts. It just doesn't seem necessary. But inevitably, the firm will want to know if that office is performing well financially. Going back and separating revenues and expenses can be time-consuming, and inaccurate.

When the office is opened, it takes only an hour or so to modify the chart of accounts to create a separate account, ("account" as in chart of accounts, not a bank account), for revenue and each expense category for the new office. In the future, whenever the firm wants, it can produce a detailed profit-and-loss statement that shows each office separately. And it can easily go backward in time and look at prior periods the same way.

- **Marketing decisions:** Where should the firm spend its money? What strategies are effective? Where is our business coming from now? How does that compare to five years ago?

These questions are all answerable with data that many firms simply do not track. Matter-intake information is critical to gather and track. That includes multiple levels of information. What ads were seen? Was your seminar attended? Was a blog article read? Did they read your profile on LinkedIn? Was there a referral source and, if so, who? What industry magazines do they read? What educational events do they attend?

- **Sale of a practice:** So many solo and small firm attorneys are in the throes of or anticipating this process. Lots of information will be necessary, including revenues by practice area, gross profit margin and origination source of clients in practice areas. No, I'm not referring to the originating attorney. Most firms know to track that basic piece of information. I'm referring to how the client comes to the firm. It includes a lot of the same information that you track for marketing decisions.

What percentage comes from repeat work for former clients? What percentage arrives via word of mouth? What percentage appears from referrals? What type of referral is it? Could it be a happy former client? Colleague? Adversary? What percentage from reputation and market share?

All these numbers make it simpler for a potential buyer to determine what is probably transferrable to a new owner. That's the value they're willing to pay for.

- **Hiring and “right-sizing”:** Non-billable time should be tracked for partners, associates, and paralegals. This information will reveal if your firm needs more administrative support, if department heads are working efficiently and if people are keeping their commitments to marketing, community activity and networking.

If you have document management software, set it up so you can easily review time spent producing documents, the number of revisions and the total amount of time spent by author or editor. You will be able to know with certainty if someone is really busy or just inefficient.

These are three very different examples. Some data is harder to collect and requires some effort. Experience dictates that the reward for the extra effort can be significant. In a highly competitive marketplace, having data available that your competitors do not have provides a strong strategic advantage.

Before I joined PBA, I managed law firms in-house. One thing that always astounded those firms I managed was that no matter how hard they tried to “stump” me in asking for an analysis of something unusual, it was rarely a problem to pull the numbers together to provide ample relevant data on which to draw conclusions and make decisions. Being a “numbers person,” I instinctively tracked everything possible.

Remember, you may have all the information you need for now. But that doesn't mean it will be adequate in one, five or ten years from now. It's a whole lot easier to collect and organize detailed information, even if you don't have a use for it now, than to try to determine what you've never collected or organized, later.

*A version of this article originally appeared in the December 20, 2021 issue of the Pennsylvania Bar News.*

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