

# Financing Software Upgrades in a Downgraded Market

Can your firm afford not to keep its software up-to-date?

By John Heckman

**W**ith the business cycle in a downturn, it serves well to reexamine the economics of software upgrades. The “easy” decision consists of postponing purchases. But is this wise? What should you consider before making a decision to upgrade? This article looks beyond the FUD factor (fear, uncertainty, and doubt) to examine the economics of upgrading and/or adding to your software licenses.

## Optimizing Existing Software

Most firms do not make an ongoing effort to get more out of the software they own. To change this, firms can:

- Invite an experienced consultant, trainer, or your in-house “guru” to brown-bag lunch sessions designed to help you maximize the potential of the programs you currently use. (Brief “Tips & Tricks” sessions also produce meaningful gains with 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 (starting with retainer letters), and integrate with your e-mail programs.

Remember, a trustworthy consultant or trainer will know what other firms have done, and may, therefore, be able to offer additional options.

## Upgrades

With an average product cycle of 18–24 months and a general reduction in the cost of software, companies can now rely on upgrades to increase profitability. But do you

really need upgrades? Generally speaking, they will not produce significant time savings that offset their cost. Nonetheless, even if your existing software is satisfactory, two reasons to upgrade remain: compatibility with other software/operating systems (for example, Word 95 will no longer integrate with many programs) and additional functionality will be useful even if it does not produce major time savings.

For example, WordPerfect 9 has two major benefits over WordPerfect 8: better conversion with Word and the ability to save a document as a PDF file (thereby 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 occurs 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 to use these programs is frequently one of sticker shock. Therefore, conduct a serious review of the potential benefits. Base your review on conservative assumptions of advantages, and liberal assumptions of costs. Your firm’s numbers may vary from the following, but the

principles are the same: perform the calculations based on your specific configuration.

Assume that a firm with five lawyers and seven staff wants a case management program. At present, without such a program, the firm loses a considerable amount of time looking for files (at the bottom of the pile), hunting for a paper calendar, phone number, document, and so on. The general consensus is that implementing a case management program will save the average user at least 10 minutes per day.

So our five attorneys each save 50 minutes per week, or 250 minutes total. Say four hours. The seven staff members each save 50 minutes per week, or 350 minutes total. Say six hours. Assuming the attorney bills at \$150 per hour (a conservative assumption) and the staff time is calculated at \$20 per hour, the firm saves  $(4 \text{ hrs.} \times \$150) + (6 \text{ hrs.} \times \$20)$  or \$720 per week. Based on 48 weeks per year (not counting vacation or time off), this firm will save \$34,560 per year if it implements the new software! A larger number of users generally implies a lower per-user cost of implementation, and hence even more savings.

Now measure this figure 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

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one of the more expensive aspects of implementing a new system), and that the firm wants experience in some initial document assembly routines to help automate the production of documents. In addition, assume that the firm wants to thoroughly train its employees (also one of the most expensive aspects of implementation). The overall consulting costs could easily reach \$8,000–\$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 expenses in less than six months— $(\$34,560 - \$15,000)/12$ .

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 Attorney X loses time waiting for someone else to find the file, get the phone number, and so forth. By enabling his assistants to retrieve information more efficiently, new software will reduce the time he currently spends waiting to obtain information from others. Factor in "half-savings" for those attorneys. On the other hand, his assistant's time savings are increased. However you customize the numbers to fit your firm's circumstances, your firm will likely recoup its expenses in under six months and, of course, continue saving about \$3,000 per month thereafter.

I see the potential for savings every time I set up an appointment to introduce 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 typically made after five to seven minutes of hold time!

But, you might object, these are just "soft" dollars—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 lead to additional billable hours, capturing additional time results in "hard" dollars—actual cash in hand.

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

It also applies in reverse—firms that do not implement time-saving software lose



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thousands of dollars per year.

In the not-so-long term this will render the firm less competitive, both economically and from its inability to retain the best people, who seek a greater degree of automation than that offered by the firm. 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." A leasing option is an attractive alternative, and is also extremely cost-effective. Leases offered by computer vendors are likely to cost 25–30 percent more than the original purchase price and are generally not advantageous.

Thankfully, there are 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 proba-

bly won't want the equipment anyway: it will be hopelessly 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 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, 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?" Yes! When I follow up six months after implementing Amicus Attorney, Time Matters, Worldox, or other 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 such products. In many respects, the issue is not "can we afford to implement this software" but "can we afford not to do so."

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