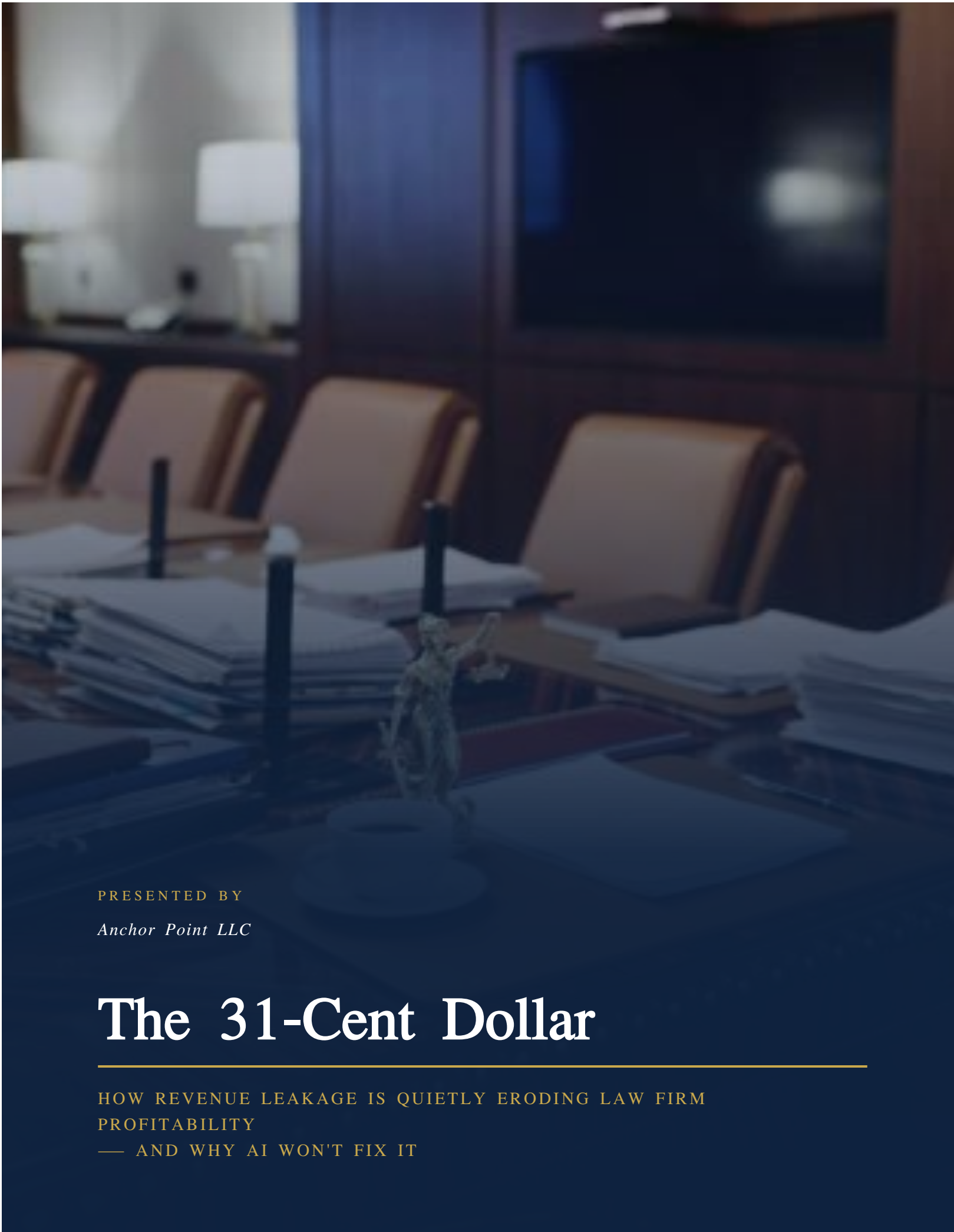


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Anchor Point LLC

The 31-Cent Dollar

HOW REVENUE LEAKAGE IS QUIETLY ERODING LAW FIRM PROFITABILITY
— AND WHY AI WON'T FIX IT

Executive Summary

For decades, law firms have focused on increasing billable hours as the primary driver of growth and profitability. Recent industry analysis suggests a different reality.

While attorneys may theoretically have eight hours available to produce revenue each day, only a fraction of that capacity ultimately becomes collected revenue. After utilization, realization, and collection rates are applied, the average firm effectively collects approximately **31 cents of every theoretical dollar of revenue capacity.**

More concerning, this figure has remained relatively unchanged for years — despite significant investments in technology, process improvement initiatives, and management systems.

THE CORE QUESTION

Will Greater Efficiency Solve Profitability Challenges, or Simply Accelerate Existing Weaknesses?

Now, artificial intelligence is introducing a new challenge. As AI automates legal work and increases attorney efficiency, firms face a fundamental question: will greater efficiency solve profitability challenges, or simply accelerate existing operational weaknesses?

The firms that thrive over the next decade will not necessarily be those that adopt AI first. They will be the firms that first understand where revenue is leaking from their existing systems — and then use technology to amplify a well-designed operational model.

This white paper examines the mechanics of revenue leakage, identifies the four primary points where value is lost, and presents a framework for building the operational foundation that makes technology investment worthwhile.

The Myth of the Eight-Hour Day

Most law firms unconsciously operate under a simple assumption: eight hours worked equals eight hours available to bill. The reality is significantly more complex.

Revenue generation in a law firm is not a single event. It is a process that moves through multiple stages before work performed becomes cash collected. At each stage, value is lost.

THE COMPOUNDING LOSS — HOW 8 HOURS BECOMES 31 CENTS ON THE DOLLAR



Industry benchmarks: utilization ~65–70%, realization ~85–90%, collection ~92–95%. Combined effect: approximately $0.31 per theoretical dollar. Source: Thomson Reuters Law Firm Financial Index; NALP benchmarking data.

Stage One: Utilization

Utilization measures how much available work time is converted into billable activity. Even highly productive attorneys spend substantial portions of their day on non-billable activities — internal meetings, administrative responsibilities, email management, practice management tasks, technology issues, business development, and staff supervision. Industry benchmarks consistently show that attorneys bill between 65 and 70 percent of their available working time. The remaining 30 to 35 percent generates no revenue.

Stage Two: Realization

Not all billable time becomes billed time. Firms routinely reduce invoices through partner write-downs, client budget pressures, alternative fee arrangements, insurance carrier billing guidelines, and staffing inefficiencies. The average law firm realizes approximately 85 to 90 percent of recorded billable time. The gap between hours worked and hours billed is often larger than firm leaders realize —— and it compounds every month.

Stage Three: Collection

Even properly billed work is not always collected. Revenue may be delayed or lost through client disputes, billing errors, slow invoicing cycles, weak collection procedures, and accounts receivable aging. Collection rates typically range from 92 to 95 percent of billed amounts —— meaning that even after utilization and realization losses, a final layer of value disappears before cash reaches the firm.

> THE RESULT
>
> What begins as attorney capacity ultimately becomes a much smaller amount of collected revenue. This is the 31-Cent Dollar —— and it has remained largely unchanged for years, even as firms have invested heavily in technology, staffing, and management systems. The problem is not effort. The problem is leakage.

Understanding Revenue Leakage

Most firms do not suffer from a lack of effort. Most firms suffer from revenue leakage —— the steady, often invisible loss of value between the performance of work and the collection of cash.

The challenge is that leakage rarely announces itself. Small inefficiencies become accepted operating practices. Minor delays become standard procedures. Over time, the cumulative impact becomes significant —— but because each individual loss is small, no single event triggers a response.

THE ANCHOR POINT PERSPECTIVE

Leakage Is a System Problem, Not a People Problem

When revenue leakage is identified, the instinct is often to blame individuals —— the attorney who doesn't enter time promptly, the billing coordinator who lets invoices age, the partner who writes down too aggressively. In most cases, the real culprit is the absence of a system. People behave consistently with the environment they operate in. When the environment lacks structure, accountability, and visibility, leakage is the predictable result.

Anchor Point identifies four primary categories of revenue leakage in law firms. Each represents a distinct point in the revenue cycle where value is created but not captured.

LEAKAGE POINT 1 OF 4

Time Capture Leakage

The first opportunity for revenue loss occurs when work is performed but not properly recorded. When attorneys wait until the end of the day —— or worse, the end of the week —— to enter time, accuracy declines and billable activity is often forgotten entirely. Studies suggest that delayed time entry can reduce captured billable time by 10 to 15 percent compared to contemporaneous recording. Common causes include delayed time entry, reconstructed time records, missed client communications, unrecorded client interactions, and lost client expenses.

DIAGNOSTIC QUESTIONS FOR YOUR FIRM

- Are attorneys entering time daily —— or reconstructing it at week's end?
- Is time recorded contemporaneously with the work performed?
- Are client expenses captured at the time of incurrence?
- How much work is performed but never recorded?

LEAKAGE POINT 2 OF 4

Billing Leakage

The second opportunity for revenue loss occurs during the billing process itself. Every day an invoice remains unissued is another day cash remains uncollected —— and another day the client's recollection of the value delivered grows less vivid. Billing leakage includes delayed pre-bill review, billing approval bottlenecks, excessive write-downs, invoice processing delays, and matter management issues. Firms with billing cycles longer than 30 days consistently show higher write-off rates and slower collection performance.

DIAGNOSTIC QUESTIONS FOR YOUR FIRM

- How long does the billing cycle take from time entry to invoice delivery?
- Who owns billing accountability —— and is that ownership clearly defined?
- What percentage of billable time is written off before invoicing?
- Where do billing delays most commonly occur?

LEAKAGE POINT 3 OF 4

Collection Leakage

The third opportunity for revenue loss occurs after invoices have been issued. Many firms devote substantial resources to generating invoices but relatively little attention to collection management. The result is a growing accounts receivable balance that represents real value created but not yet captured. Common symptoms include growing A/R balances, slow payment cycles, inconsistent follow-up procedures, and client payment disputes. The longer an invoice ages, the lower the probability of full collection —— a fact that makes collection discipline a direct driver of firm profitability.

DIAGNOSTIC QUESTIONS FOR YOUR FIRM

- What is the firm's average collection period (days outstanding)?
- Who owns collection accountability —— and how is it tracked?
- How quickly are collection issues escalated to firm leadership?
- What trends exist within the firm's aged receivables report?

LEAKAGE POINT 4 OF 4

Knowledge Leakage

This category is frequently overlooked but may represent one of the most significant operational risks facing law firms today. Knowledge leakage occurs when critical operational knowledge exists only in the minds of individual employees —— not in documented systems. Examples include billing procedures, client-specific requirements, insurance carrier guidelines, administrative workflows, and internal controls. When experienced personnel retire or leave the firm, years of institutional knowledge may disappear with them. The result is reduced productivity, increased training costs, inconsistent service delivery, and operational disruption that directly affects revenue performance.

DIAGNOSTIC QUESTIONS FOR YOUR FIRM

- Are critical billing and operational procedures documented in writing?
- Could a new team member perform key functions without relying on a specific colleague?
- What would happen to billing and collection performance if a key staff member left tomorrow?
- Where does the firm's operational knowledge live —— in systems, or in people?

Why AI Won't Fix Revenue Leakage

Artificial intelligence represents one of the most significant technological advancements the legal profession has ever experienced. Law firms are investing heavily in AI tools that promise to increase efficiency, reduce research time, accelerate document drafting, and streamline operations.

However, AI is not a strategy. It is a tool.

Many firms are approaching AI with the assumption that increased efficiency will automatically improve profitability. This assumption is flawed — and understanding why it is flawed is essential to making sound technology investment decisions.

WHAT AI CAN DO

- Draft documents faster
- Research case law more efficiently
- Analyze contracts at scale
- Summarize lengthy documents
- Automate routine correspondence
- Flag billing anomalies in data

WHAT AI CANNOT DO

- Fix broken workflows
- Create management accountability
- Improve billing discipline
- Correct a flawed operating model
- Eliminate organizational confusion
- Replace leadership and structure

A poorly designed system combined with AI simply produces poor outcomes more efficiently. If a firm has a 30-day billing cycle today, AI may help attorneys draft faster — but if the billing process itself is not redesigned, the invoices will still sit in the queue for 30 days. The leakage point has not moved. It has simply been preceded by faster work.

THE ANCHOR POINT PRINCIPLE

Technology Should Amplify Operational Excellence —— Not Replace It

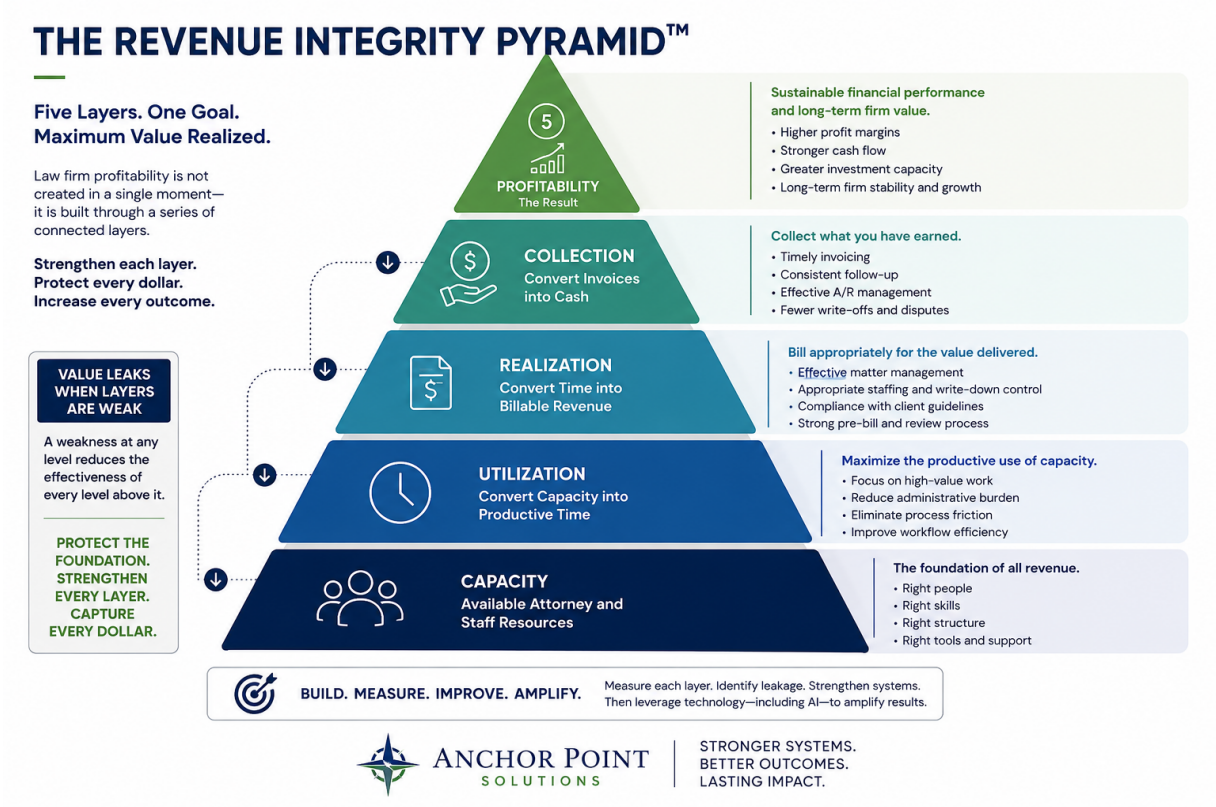
The firms that will benefit most from AI investment are not those that adopt it first. They are the firms that have already built the operational foundation —— documented processes, clear accountability, structured controls, and reliable visibility —— that gives technology something meaningful to amplify.

Design the outcome first. Build the system to support it. Then leverage technology to amplify the results.

The Revenue Integrity Pyramid™

Anchor Point believes law firm profitability rests upon five interconnected layers. Each layer builds on the one below it. Weakness at any level reduces the effectiveness of every level above it — which means that technology investments, including AI, should be evaluated based on their ability to strengthen these foundational layers, not bypass them.

THE ANCHOR POINT REVENUE INTEGRITY PYRAMID™



The pyramid illustrates a critical insight: profitability is not a single decision or a single initiative. It is the cumulative result of five operational layers, each of which must be built, measured, and continuously strengthened.

THE FIVE LAYERS

- **Capacity** —— Available attorney and staff resources: the right people, skills, structure, and tools.
- **Utilization** —— Converting capacity into productive billable activity by maximizing high-value work and reducing process friction.
- **Realization** —— Converting recorded work into billable invoices through effective matter management and billing discipline.
- **Collection** —— Converting invoices into collected cash through timely invoicing and consistent A/R management.
- **Profitability** —— The result of all four layers operating effectively: higher margins, stronger cash flow, and long-term firm stability.

THE CORE PRINCIPLE

Value leaks when layers are weak. A weakness at any level reduces the effectiveness of every level above it.

Strengthen each layer. Protect every dollar. Increase every outcome.

Build. Measure. Improve. Amplify.

The New Law Firm Operating Model

Historically, law firms competed based on headcount, office size, geographic reach, and hourly rates. The next generation of successful firms will compete differently. They will distinguish themselves through operational excellence, process consistency, knowledge retention, data visibility, strategic technology adoption, and leadership development.

The firms that intentionally design their operating systems will outperform firms that merely add more technology to existing processes. This is not a prediction about the future — it is already happening. Firms that have invested in operational infrastructure before technology are capturing more value from the same hours worked, retaining institutional knowledge, and building the management discipline that allows them to grow without proportionally increasing overhead.

> THE COMPETITIVE SHIFT
>
> **Yesterday's competitive advantages:** Headcount. Office footprint. Geographic reach. Hourly rates.
>
> **Tomorrow's competitive advantages:** Operational excellence. Process consistency. Knowledge retention. Data visibility. Strategic technology adoption. Leadership development.

Where to Start: A Four-Step Diagnostic Framework

Before investing in new technology, new hires, or new marketing, firm leaders should conduct a structured assessment of their existing revenue cycle. The following four steps provide a practical starting point.

1 Map the Revenue Cycle

Document the complete path from time entry to cash collection. Identify every handoff, every approval step, and every point where delays commonly occur. Most firms discover that their billing cycle is longer — and more complex — than leadership believes.

2 Measure the Four Leakage Points

Quantify time capture rates, realization rates, collection rates, and the extent of undocumented operational knowledge. Even rough estimates will reveal where the greatest opportunities exist. The goal is not perfection — it is visibility.

3 Assign Accountability

Every leakage point requires a clearly identified owner. Who is accountable for billing cycle time? Who owns A/R management? Who is responsible for ensuring time entry compliance? Without named accountability, improvement initiatives stall.

4 Build Visibility Before Adding Technology

Establish a regular cadence of KPI reporting — utilization, realization, collection, and A/R aging — before evaluating any new technology investment. The data will reveal where technology can add the most value. Without it, technology decisions are made on assumption rather than evidence.

Conclusion

The most important question facing law firm leaders today is not: "How can we bill more hours?" The more important question is: "How much revenue are we already losing from the hours we have?"

Before hiring another attorney, before purchasing another AI platform, before implementing another software solution —— firms should first understand where revenue leakage exists within their current systems. Because the greatest opportunity for growth may not be generating more work. It may be capturing more value from the work already being performed.

The 31-Cent Dollar is not an inevitable condition. It is the result of operational gaps that can be identified, measured, and closed. The firms that understand this —— and act on it —— will be positioned to thrive in the next era of legal services, with or without AI.

THE ANCHOR POINT COMMITMENT

Stronger Systems. Better Outcomes. Lasting Impact.

Anchor Point helps law firms strengthen financial operations, improve workflow design, document institutional knowledge, reduce revenue leakage, and build operational systems that support sustainable growth. Our philosophy is straightforward: design the outcome first, build the system to support it, then leverage technology to amplify the results.

The firms that capture every dollar they earn will outperform the firms that simply earn more dollars.

ABOUT THE AUTHOR



Scott Kepner

FOUNDER & PRINCIPAL — ANCHOR POINT LLC

Scott Kepner is the founder of Anchor Point LLC, a Kansas City-based firm specializing in fractional CFO and COO services for small to mid-sized law firms. With extensive experience in law firm financial operations, billing systems, and organizational design, Scott helps firm leaders identify and close the revenue leakage gaps that limit profitability. He works directly with managing partners to build the operational infrastructure — processes, controls, visibility, and accountability — that allows firms to capture more value from the work they already perform.

READY TO FIND YOUR LEAKAGE POINTS?

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