



# KMS ProfitPower Tips for Lawyers™



EDITOR: Rob Knowsley LL.B MIMC

[www.lawfirmprofit.com](http://www.lawfirmprofit.com)

November 2002

**Increase Your Profit Results Dramatically! Reading time... only 8 minutes**

**Featuring...**  
**Marketing Confidence Tips  
& ProfitPower™ in Action**

## Robservations

Welcome to the November 2002 edition of our newsletter.

Another financial year is well under way in Australia, (nearly concluded in New Zealand) and despite the sad and horrific events that stop us all in our tracks, we must continue to try to run our practices well in the best interests of all our stakeholders.

Cashflow is an incredibly important issue in the management of any business, and equally so in a legal practice, yet it is understood by many lawyers at only a fairly primitive level.

Hardly a day goes by that I am not faced with a partner very confused about why there doesn't seem to be enough cash.

Not understanding what cash was needed, what was generated, and how it has been used, can undermine business confidence terribly.

Every business should have a good cashflow projection system and compare actual results carefully to the projections, to help the management team understand what happened compared to what they thought was to happen.

In telling many partners this they throw up their arms and declare that there are so many variables that it's virtually impossible to predict cashflows.

How many files come in, who gets sick,

who doesn't do their billings on time, which clients don't pay on time... the list goes on.

### **This is the whole point.**

If you have no projection tools you are operating totally on guesswork, and that won't help you at all and your bank will not be impressed.

A cashflow is simply a tool to help you better understand an important part of your business... it's need for working capital.

It will almost never be exactly right, but analysis of what happened compared to what you planned will help you learn more about managing key systems such as billing fully and on time, and credit control, Work in Progress velocity and Work in Progress Realisation.

A cashflow will help you to understand more fully the implications of putting on another team member, or of moving the practice into new work areas, especially important right now in large slices of Australia with the extra pressure on much of the Injury Compensation work.

Prepare on three scenarios... best case, worst case, and most likely case.

Will you get through if the worst case scenario eventuates?

If the cashflow says 'No', you need to change your performance in key areas

to cover that likelihood.

Will your cash situation be good enough in the most likely scenario? Will partners be able to draw proper profits?

Update your cashflow monthly. Keep a copy of the original cashflows of course, but insert actual data for the latest month in your working copies of the three scenarios, and review all of the assumptions made.

Prepare and distribute to all key management people and partners a Source and Application of Funds Statement with an analysis of the cashflow... past and future.

For example... "The SAF Statement shows that our bank position has improved \$85,000 despite extra drawings over the past month, and that the profits retained in the firm have increased overall \$240,000.

However we have decided not to distribute further funds, capital or profits, at this point, because the attached cashflow clearly shows that the trading fluctuations at this time of year and requirement for various types of tax payments over the next two months, will require almost all of our capital reserves in a worst case scenario, and we do not want to be going close to our bank guidelines on the new unsecured arrangements, or asking partners to put capital back in."

## Covered in This Issue

- Editorial... Robservations
- ProfitPower Web Tips, Valuing your practice, Management Training Seminars - 2 • Marketing Confidence Tips - 2&3
- Critical Success Factors - 3 • Practical Work in Progress Tip, Technology Tip, ProfitPower™ in Action - 4
- Tips You Won't Hear From KMS - 5

**Experience Powerful Profit Benefits with KMS Management Support™**

A cost effective management advice service which draws on experience acquired in 912 medium to small legal firms across all states of Australia, NZ and Singapore. If you are not already a member, visit [www.lawfirmprofit.com](http://www.lawfirmprofit.com) now.

The Editor Rob Knowsley, is a lawyer, admitted nearly 30 years, and has practised successfully with firms of all sizes - city and country. As KMS Senior Consultant, his insights are based on the experience of fourteen years of consultancy assignments, and telephone support in all areas of practice management and profit building. Many practices have quickly reaped the monetary benefits and enjoyed the feeling of being in more control of their businesses through his practical help.



## ProfitPower Web Tips

Your home computer may be the gateway to your firm for a virus or a hacker... the weakest link in your security chain.

Does it have full virus protection, have you updated the definitions (download automatically from the supplier Website regularly) so the latest viruses are covered, is your virus protection actually switched on?

Are you on-line from home to the firm... many now are, partners and other team members alike.

Do your children use your home computer to access the Web, send and receive e-mail. It's a dangerous cocktail.

Viruses can do obvious damage to your home and business computer systems, but some are Trojan horses which do hidden damage.

One of the most annoying viruses is the one which infects computers via e-mail address books, and randomly selects documents from your computer to attach and send to someone in your address book, not apparently from you, but from someone else in your address book.

Think about the documents you have on your home computer. Private financial material, your will, family photos, some client documents you've worked on at home, correspondence, minutes of clients business meetings e-mailed to you because you were working at home, a slightly doubtful picture e-mailed to your sixteen year-old by a friend.

What degrees of embarrassment will result if someone in your address book... a relative, client, solicitor on the other side of a matter, suddenly gets an e-mail with one of the documents as an attachment?

Your editor recently switched to a backup laptop while another one was being upgraded. Happy to admit that it was some days before I realised that someone had disabled the anti-virus protection so that it didn't load at computer start up.

When it was spotted and switched on the Virus definitions were two years out of date.

Fortunately 30 minutes and a download later, and then after a further full hard disk scan with the latest version, no viruses were found. That is partly luck and partly the fact that there are fewer viruses that affect Macintosh computers... the deviates that create them can do far more extensive and exciting damage in greener pastures.

## Valuing your practice... four short tips.

Valuations just create boundaries within which to commence negotiation.

If you're looking at merging with another firm, get the two accountants together early to agree on a method of valuation... it will save you a lot of time and angst.

Allow yourself plenty of time to be comfortable with the process and the end result... don't make a decision when jammed into a corner.

Be realistic! Someone has to be able to make a reasonable dollar from what you're selling them after paying you for it!!

## Management Training Seminars 2003...

What do you need which is not apparently being provided in the marketplace?

KMS is currently engaged in planning our national seminar program for 2003.

If you see a need for training in a particular area don't hesitate to e-mail us with a suggestion for a topic at [seminars@lawfirmprofit.com](mailto:seminars@lawfirmprofit.com)

## Marketing Confidence Tips

**Tip #1... Conduct an audit of what needs you are meeting, and can meet when files are opened, at regular marketing meetings and at file closure.**

The principle is... if this client has entrusted us with assisting with this problem, are the circumstances likely to be limited to this client?

Probably not!

How can we properly extrapolate from this client and file to the marketplace as a whole and let our other clients and contacts have some useful information.

Example... You do some work for a business that builds aluminium sheds, and arrange for them a refund of a few hundred thousand dollars of duties paid because of an incorrect application of the law.

Client is delighted and may tell a few people, for a few weeks, how you assisted. It may lead to more work in the area.

Better still, 'Extrapolate'. Turn to your database. Go to the relevant field and type in "manufacturing" into the industry field, and maybe even "aluminium" if your database is that good.

How many clients do you have who manufacture with aluminium... building boats, caravans, dog kennels etc etc etc.

Maybe some of them have also been



*continued from Page 2*

overcharged duties?

Maybe some will appreciate you thinking of them and their business profitability even if they aren't owed a brass razoo.

Communicate. Send a quick e-mail, ring and invite them to a briefing, do a quick newsletter. Choose your communication tools to suit the circumstances but communicate and communicate fast.

Example... One lawyer on your team explains to the week's marketing meeting what's involved in a new file and what she's planning to do to assist the client.

The team is challenged to use the database (or even their memory) to identify clients who could benefit from being warned about this particular further 'deep black hole in the highway of life'.

Communicate with them.

Don't overlook potential referrers like Accountants.

Using a quick e-mail and drawing to the attention of 55 Accountant contacts on your database that you have a mechanism that has saved enormous dollars for a manufacturer using aluminium (or whatever) may trigger enquiries from just one client of half of your Accountant contacts... that's 27 new enquiries.

**Tip #2... All these years after price deregulation in most of Australia even Domestic Conveyancing hasn't been lost to law firms, and it can still be done at very nice profits thank you very much.**

Often your team can handle a few more matters with existing resources... putting a nice topping of pure profit into the practice area.

One quick tip for getting more work... make all your correspondence with

Estate Agents 'Agent-friendly'.

This will ensure that in every existing matter where you communicate in writing with them you are consistently presented in that writing as differentiated from those lawyers who treat Agents consistently badly or at best with indifference.

It will lead to a few more referrals and if you back it up with staff who are genuinely helpful you will get plenty of extra referrals per year.

Work this into a total Exceptional Conveyancing™ approach, and with little lawyer involvement your Conveyancing area can be delivering you a very healthy profit contribution for a long time to come while you continue to also develop more complex areas of legal service.

**Tip #3... Don't use low prices to assist you to break into a new area of practice.**

It's unnecessary where the market is not cluttered and mature, and it's very hard to raise your prices later.

Start where you really want to be and market your packaged service strongly using relevant helpful educative material.

Any mug can charge below what a service is worth. It's more rewarding professionally and financially to be paid properly for a valuable service well delivered.

## Critical Success Factors...

**CSF #1... When we're talking profit, the little things really do matter.**

How many fee-earners do you have capturing 5 hours or less Client Time per day from the total hours you pay them for?

Is the Work being captured at the right

charge rate in the first place?

When the work is finally billed, are you getting a write-up or a write-down?

Is the fee-earner, and the others working on the files, getting enough files completed in each period relative to your costs of having them on your team?

Not important things in the big picture? Let's think again!

If a fee-earner doesn't have enough to do, or is an ineffective capturer of the tasks carried out, and records an hour per day less than appropriate, at say \$225/hour, it's \$51,750 per year Raw Work in Progress that's not recorded.

Looking at another problem we see every month... if they are capturing 5 hours but the average Raw WIP value isn't \$225/hour but \$185/hour... you're \$46,000 per annum down on Raw WIP creation.

If they're achieving a conversion of Work in progress into bills at just 80% and not the 90% you estimated... and budgeted for, you drop another \$21,000.

We see situations every week in which employees miss delivering their employers \$50,000/year in fees from a combination of just these factors alone, and many times a year see \$100,000 shortfalls... from a single team member.

With firms that are reasonably geared, and already have 3 or 4 fee-earners per partner, losses per partner of \$200,000/year are commonplace.

Little things? We know that's not the case.

When you're making profits, and all your expenses are covered, increases in production from getting fee-earners a little more effective are all your profit... and dramatic increases in your bottom line are right there in front of you.



## Practical Work in Progress Tip...

So you've purchased your new practice management software and had it installed and trained all your team.

There's been a lot to think about and it's been a big job.

The team is recording both Firm Time and Client Time to the system and output looks pretty good.

Make sure though that you have the default value of Firm Time set to \$0 so it's totally clear what real Raw Work in Progress value you are creating.

Not all systems do this automatically and some require plenty of thought to set up.

## Technology Tip...

You have a great letterhead and associated stationery that projects just the image you want.

Have you thought about what the huge flow of e-mails out of your practice looks like, whether they're consistent in style and project the image you want?

At KMS we receive dozens of e-mails from legal firms all over Australia and New Zealand every day, often from multiple team members in the one practice.

Usually the formats of the e-mails are unattractive and hard to read...with tiny text and unjustified margins.

Attachments are just as bad.

Clearly there are no protocols in place and/or no checking to monitor adherence.

Forwarded e-mails contain multiple apparent attachments, all of which have to be opened to ensure you're not missing anything important.

Suggestion... get some competent help to set up your e-mail protocols and train everyone how to use standard formats and how to ensure that only the correct attachment in the correct format gets sent out.

## ProfitPower™ in Action...

The dramatic jump in profits once you pass the break-even point is clearly illustrated by a recent example from a KMS client firm.

Analysing performance from the firm's KMS Performance at a Glance Report™, the partners and the writer noted that revenues were up 12% on Budget and expenses were up 3% on Budget... so there was a 9% increase over budgeted profit ...right?

Wrong! Profit was up 105% on Budget. Why?

Let's look at the figures...

Revenues per partner were budgeted at \$1,958,500 but were at \$2,193,520 - a 12% increase and representing extra revenues of \$235,000 per partner.

Expenses were up 3%, but represented just \$45,000 per partner over budget, so the difference between projected profit and actual profit was \$190,000 per partner.

Target profit for the part year to date was \$180,000 per partner, so the actual profit result was 205% of target... not bad when revenues were only up 12% and expenses were over budget by 3%.

That's ProfitPower™ in action, and it highlights why you need to be managing for optimum revenues, not directing most of your energies into trying to keep expenses down.

## Ever felt like you should have the Title Deeds to your home, and not your firm's bank?

Far too many firms are still beholden to their banks and have given bricks and mortar security... reducing private opportunities and increasing nervousness in the domestic environment sometimes.

When the equity position of partners is quite diverse, partners with more private security are more exposed to bank demands if things go bad, while younger partners may have very little real equity to lose.

Properly managed it should not be necessary, and all the major banks have shown in the last twelve months that if they get the right information about a legal business they will lend without security on the partner's respective Title Deeds.

Banks are looking for good information about your business, and if you have it, and can present in the correct way, you should be able to dramatically improve your whole borrowing situation.

Many KMS clients have achieved this happy state, managing their practices well, and providing the Bank each month with the KMS Performance at a Glance Report™.

The 'PAAG' gives you most of what you need to know about key performance indicators in the practice, and is more than the bank expects from you monthly. To view an example simply visit the Management Communication page on our website... [www.lawfirmprofit.com](http://www.lawfirmprofit.com)

Certainly the bank will want you to operate within some clear guidelines, but that's normal and understandable, and many firms are doing it now while the banks still retain their Deeds!