



# KMS ProfitPower Tips<sup>TM</sup> for Lawyers



EDITOR: Rob Knowsley LL.B MIMC [www.lawfirmprofit.com](http://www.lawfirmprofit.com)

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## Featuring:

- ◆ Practical Tips To Help Avoid E-mail Embarrassment
- ◆ Real Database Power

## Robservations

Welcome to the April 2003 edition of 'ProfitPower Tips for Lawyers'.

An exciting trend is apparent in small medium practices across the country.

Many firms are ignoring all the talk about whether multi-disciplinary practices are desirable, permitted, viable or possible... and just getting on and creating multi-disciplinary businesses... with wonderful success in the main.

The synergies are incredible, especially if databases are used properly as we discuss later in this issue.

All the businesses and private clients you have now have other spending every year, in areas you may not presently provide services in that fit logically with the practice of law.

Insurance Broking, Mortgage Origination, Property Management, Property Sales, Financial Planning, Accountancy, Personnel Placement... just a few of the proven opportunities.

By being able to offer extra services to people you already have a business relationship with, and presumably

a good one based on trust and credibility, you can tap into the cycle of spending those clients already had in areas you are not now deriving a single dollar from them.

In the firms with which we are involved clients are voting with their feet and giving these service enhancements the thumbs up.

The biggest concerns we hear voiced by other practitioners are those revolving around the dangers of 'not sticking to the knitting'.

No one is suggesting venturing blindfolded into the unknown with no relevant skills.

By buying a business off the right people, and factoring them into your business, whether long term or just for a transitional period, you can buy the necessary expertise, and allow the relevant people in your firm to acquire the necessary skill sets gradually.

Joint ventures also seem to work particularly well.

If you have your 10,000-name database, it is highly valuable to

people in well-matched fields. They will readily enter a Joint Venture with you, seeing that your client base will give the business a real kick along.

We are seeing many businesses that have been crawling along for decades suddenly leap to prominence in their marketplaces through this strategy.

Of course you need to expand on the back of an existing profitable business... and good practice management is critical to that, but often there are literally many hundreds of thousands of dollars sitting out there in your client base, being spent elsewhere every year, that could add dramatically to your economies of scale and bottom line.

It is important that you are already well organised in Business Development so you can simply widen your efforts to the new clients, and the new services to your existing clients.

Our expectation is that Legal practices with these wider client bases and service offerings will be much more saleable in a far wider market than just other practitioners... increasing your options in succession planning too!

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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 fifteen 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.



## Practical Tips To Help Avoid E-mail Embarrassment...

E-mail is a wonderful tool but at present there are many people using it quite casually, creating embarrassment and worse...

### 1. Always check the whole E-mail and annexures before replying or forwarding.

- (i) Other people may have received earlier E-mails and you may not want your reply to go to them too.
- (ii) Earlier E-mails may be further down the page (well off your screen) and you may not want them sent on. The topic may have changed completely from what originally was sent.
- (iii) Attachments may contain material you do not want sent on.

### 2. Be very careful with the 'BLIND CC' button.

If you really want to keep some recipients secret... send separate E-mails. This is a problem because some computers can read who the recipients of 'blind ccs' are... and you may never know that this has happened.

Very embarrassing if you were trying to keep secret the fact that they had received a copy, and potentially even more disastrous if you have given away their E-mail address when it was supposed to be confidential.

### 3. Scroll down through the list of recipients.

There may be more addresses which have not appeared in the top line. You cannot see these until you scroll down. You may not want your reply to go to them all.

### 4. Change the topic line to suit your E-mail... don't simply adopt what pops up there when you are replying or forwarding...

This is both courtesy and common sense. When E-mails keep zipping back and forth with the same topic line it is too easy to assume that you have read something and can delete it... especially if your inbox is as messy as some are!

You may be deleting information critical to the discussion, and later wonder why you seem to be out of the loop.

### 5. Manage Your In Box!!

Set your preferences to show unread E-mails in your In Box in a striking colour (red makes some sense)... and alleged junk-mail as a different colour.

Always read E-mails quickly even if you elect to leave them in your In Box to deal with substantively later. Unread E-mails will stand out clearly in any growing clutter. Delete junk mail immediately. If your system suggests that some mail is junk and it is not, consider using the tools to quickly add the Sender to your address book so future E-mails are not treated as junk...

### A cautionary tale...

Four senior lawyers were involved in a major medical inquiry, which, because of its gruesome and dramatic circumstances, was attracting considerable media interest.

On this particular occasion the defendants' lawyers were endeavouring to reach consensus on a date for a settlement conference. One sent the following E-mail -

"...date proposed is okay with me but I haven't heard anything from X (derogatory reference to plaintiff's solicitor) who is quick to make demands with menaces and to insist on action at short notice, but slow when it comes to performing".

This E-mail was intended for the defence lawyers only. Inadvertently the sender activated 'reply to all', overlooking that the previous exchange had included

the plaintiff's lawyer. On receipt of the misguided E-mail, the plaintiff's lawyer understandably took offence. Goodwill evaporated and the planned settlement conference was at risk. There is anecdotal 'gossip' that the insurance company client was extremely unhappy that its interests had been adversely affected in this way.

## Valuing a Practice...

### Another Important Tip

In the last issue we had four tips on Practice Valuation. We've since seen many valuations, most of which in our opinion grossly overstated the practice value.

One of the main issues was the failure to allow a reasonable market Notional Salary for principals before calculating 'Profit'.

It is easy to get out of touch with salary developments for good people, especially in a smaller practice. The last time we looked the respected Financial Management Research Centre was using \$AUD 120,000 as an indicative figure and higher in larger firms for Partners Notional Salary.

We have noticed that salaries for the right employed lawyers have breached the \$150,000 mark in good suburban practices in Sydney and Melbourne, and the salary of a capable partner, with much wider responsibilities, would arguably be at at least this level, with variations from location to location and practice to practice of course.

The consequence of undervaluing Notional Salary when valuing is to put apparent profit up, and to thus inflate alleged goodwill value.

When looking at what you hope to do with the practice you buy don't look at its potential and pay for that!! That's

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your upside... the Vendor has not achieved that and should only be paid for demonstrated value.

**A final tip...** look closely at the pattern of profit in the last few years... has it been going up or down. If it's going down the average of the last few years may currently reflect a peak from which there is still a fall to come.

If profits have been going up, what areas of work have been producing the profits and what has been happening to the unbilled Work in Progress pool?

There are many Personal Injury practices currently for sale. Profits may be high at present but if the WIP is falling and new file numbers are down the future will not be rosy.

Strangely a lot of practices in this situation do not seem to have statistics available on WIP levels over time, Realisation Rates on Raw WIP, and worst of all, apparently no data on new file numbers!

**Caveat Emptor!!**

## Marketing Confidence Tip

**The real power of a good database...**

In our editorial we stressed that leading small-medium firms are expanding fast by offering existing clients a much wider range of services.

The fastest growth path is in acquiring other businesses, and offering your existing services to the clients of those new businesses while at the same time offering the newly acquired services to your existing clients.

If you have a tested 10,000 name database, and you acquire an Accountancy practice with a Tax specialisation, you have a wonderful opportunity to do a mailing coupling the news of the

acquisition and the client benefits available, with a special offering.

It's also a good time to promote a seminar, for example, tax planning for the average family.

With a wider range of fields in your database you can target your offerings more carefully when relevant too... perhaps cutting and slicing the database information to the point where you send, say, fifty invitations to a very particular event.

When you acquire another business ensure that integration of the clients and prospects of that business into your database is an early priority, so you can welcome them to the 'family' and take advantage as quickly as possible of some of their available spend in each area of your service offerings.

You've paid for the asset... don't let it sit on the shelf untapped to any degree.

Train all your team members carefully why accurate data is critical...and encourage them not only to follow data capture systems in place, but to be attuned to one-off pieces of information that will be useful in your database.

Don't forget the privacy issues. Be upfront about them and make your Privacy Policy freely available.

## Premises, Leases And Rent Reviews...

## The Hidden Costs Of A Successful Practice?

**Our thanks to...MARTIN FISHER, B.Sc. M.R.I.C.S. A.A.P.I**

*Martin Fisher qualified as a commercial property valuer and consultant in London 25 years ago. Since then he has had a career spent with development*

*companies, large national agency groups, and latterly with small advisory firms.*

*Working in the oilfields of Louisiana a long time ago taught him the value of teamwork, and working in the property market on three continents taught him that if you thought drilling for oil is challenging, the property market is harder!*

*He swims and cycles a lot, which accounts for his energy!*

If your premises are the right size, cost you an appropriate amount, and your tenure is secure for a while, is this the end of it? Probably not.

Your premises need to be affordable, reflect the correct image, practical, cater for growth or changes in rates of growth within parts of the practice. Matching conflicting demands requires some forward planning.

I have been advising solicitors for more than a decade on how to effectively plan for a relocation, negotiate a lease for new premises, and manage the whole process. Why is this area of business practice so important?

Many a time I have been asked to assist a practice when the options have been reduced by effluxion of time. Inertia has resulted in some firms agreeing to less than the ideal deal.

Sometimes practices may need just a little more manpower at the right time to speed up the process. For example a small start up law firm needed new premises very quickly. After failing to find suitable premises in the Sydney CBD, I contacted over 20 city agents, and suggested they find a fully partitioned suite (forget a new fitout for time and cost reasons,) and take advantage of many months rent free to new tenants.

The whole process was finished in less than 4 weeks. This would not have happened unless they had help at the right time. After all you can't attend court and walk the streets looking at

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office floors!

Planning costs nothing but a little time, and the ability to quantitatively assess what the real options are. This is where advice can be crucial at an early point in the process.

For example, some typical questions that might be asked are:

- **How much rent do I pay as a total proportion of practice income?**
- **What would alternative premises cost to rent?**
- **What market incentives are available to tenants on the move?**
- **How much will a relocation cost?**
- **How do we fund the fitout costs?**

Part of the problem facing many practices is knowing where to start, and organising the whole procedure of review.

After a decade of helping legal practices, I often become a source of referral to many other professionals – finding appropriate interior designers, sourcing builders and workstation suppliers, or providing project management services to organise the whole relocation.

At the end of it all, every practice has to become more efficient, better organised and positioned in appropriate premises for further growth.

### **What to avoid?**

- **Inertia and procrastination. The killer to cost-effective option planning.**
- **Time lost through lack of partner communication. Consensus is essential.**
- **Multiple decision-makers. One is sufficient.**
- **Underestimation of the time it takes to move. Lack of parallel processing.**
- **Getting solicitors to agree their own lease.**

## **Ever Felt Like You Should Have the Title Deeds to Your Home, and not Your Firm's Bank?**

### **An Update...**

Last issue we wrote..."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".

We've since had many enquiries from firms asking which bank they should go to!

The answer is still... "Any of them".

Properly handled, any bank will lend to a decent business on an unsecured basis... unsecured that is in relation to real estate.

Of course they will want to charge a premium over the rates you have been paying for a secured loan... that's fully understandable and acceptable.

### **The issues to look carefully at are:**

- 1. Are you paying the lowest rate you should be on your current loans... banks are notorious for giving apparently similar clients different rates... usually in our experience based on how hard the clients are prepared to bargain.**
- 2. Is the margin the bank is asking for reasonable...ask your peers. Our experience has been that the first offer is never the bank's best offer.**
- 3. The Covenants the Banks require. Make sure you are comfortable you can meet them... unsecured lenders tend to be a lot quicker to get tough than secured lenders.**

Don't forget that changing banks is not something you do lightly... there is a lot of work involved.

## **Critical Success Factors...**

### **The Opposite of the ProfitPower™ Effect.**

ProfitPower™ is all about understanding the potential of individuals and the business, and organising the business to achieve the potential... rather than drifting along accepting whatever results eventuate.

Because by far the majority of people are mediocre at achieving potential, many of us admire high performers in business, art, sport etc, but do precious little to ensure we achieve our own potential.

This reality has meant that over many years lawyers have looked at surveys of financial performance in the profession, and focussed on how they compare to the average performers shown there... perhaps to gain some comfort from how close they are to average.

Of course average firms are basically on the half-way point between the worst performers and the very best, so the comparison is not often enough being made to firms who are going close to achieving their potential from time to time. Mediocrity is the standard.

Over fifteen years we have found only one or two firms which were going close to achieving their present potential, from the thousands we have looked at. Partner returns hundreds of thousands of dollars per year higher than were being achieved are possible in most cases.



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Watch out for mindsets which hold people back. We recently interviewed a capable lady lawyer with a view to putting in place a typical KMS WorkPlan™ to help to guide her towards her potential.

She really struggled with the concept of working reasonable hours to a plan, with defined expectations and outcomes.

She was fixated on the paradigm she expressed as, "I get my work done, then I go home".

At first blush it sounds very reasonable and packed with commonsense, fully aligned with the modern ethic of working to live rather than living to work.

On closer examination of course it is a dangerous nonsense. It begs the central question, "What should be the scope of my work?"... for my remuneration, my lifestyle requirements, and the investment of the firm in the infrastructure within which I operate.

If someone has an unacceptably high level of work on, they do not normally stay until it is all finished...that is often impossible, is unhealthy, and increases the risk of errors and alienation of clients and family.

We observe that it is far more likely that a person with too little to do in an average day will "get their work done", then go home, convinced they have put in a good day... a full day.

Often such a day will result in 5 hours or less of work on client files, some of which later Realisation statistics would prove was not even billable.

Strangely, such a lawyer does not typically fill up the other three to four hours a day, for which they are being paid, with real precedent development, business development,

legal education, staff training and client relationship management.

Some are still cheeky enough in 2003 to argue that that's not what they are paid to do!!

Let's assume that the lawyer was supposed to be working a bare minimum 40 hour week, and charging a modest \$265/hour.

Every ten 6 minute units of work on Client files, actually charged for, is worth \$61,000 per year in bills.

This is far more than theory.

Most of the highest profit firms in Australia (billing less than \$20M) use WorkPlans™ to get focus with employees on what their potential is, in both Client Time and Firm Time.

If a lawyer agrees to deliver a forty hour week, then he/she agrees to plan to do that in a mix of Firm Time and Client Time that in our experience can range from 5/3 to as high as 7 Client and 1 Firm per day. Remember that one Firm Hour invested per day gives you 230 hours per year for a full time employee.

For the example above, achievement of potential delivers not \$61,000 extra per year but at least \$120,000.

There is big scope to remunerate the individual better from the resulting cashflow and still take the firm closer to optimum returns for the invested time and money, and the high level of business risk endured by the partners.

The proof is in the pudding. We get a huge level of satisfaction from employed lawyers who tell us that they are billing tens of thousands of dollars more per month than they were in their previous firms, without working any harder... simply through using better systems to plan expectations, to record effort, and to bill properly and on time.

The Mahlab Recruitment Survey 2002 reported that lawyers in smaller practices in Australia recorded (not billed) between 5.5 and 6.8 hours per day, but on average worked 50 hours per week to achieve this.

Given that surveys of employed lawyers tend to show a desire for flexible work arrangements, a balanced lifestyle and career development, managers of these employees can help by teaching them how to be effective, whether they really work 8, 9 or 10 hours average per day.

The KMS preference is for moderate effective days.