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KMS ProfitPower Tips for Lawyers™



Issue 27... **July 2006**

Increase Your Profit Results Dramatically! Reading Time... only 9 minutes

Robservations

Welcome to the July edition of "KMS ProfitPower Tips for Lawyers"...As we all note in varying ways each year, another year has passed already, "How time flies"!

Speaking of time flying, the recent spate of activity in preparing new KMS WorkPlans™ for many hundreds of lawyers in Australia and New Zealand has again highlighted interesting issues with those who have done well in 2005/6 and those who have not.

A key issue in assessing performance of individuals against WorkPlans™ is why some people have high Firm Time when in their role experience tells me they really should not need so much?

The truth seems to lie in the fact that Firm Time is in reality two main types..."core" or "essential" Firm Time, and "elective" Firm Time.

When establishing WorkPlans™ for individuals we now have enough experience to work with the individual fee-earner to identify what the core Firm Time is likely to be on average each working day.

My considered view after nineteen years monitoring use of Firm Time is that the key reason for blowout is usually the most obvious and likely one...the fee-earner does not have enough Client work to do.

During the latest round of WorkPlan™

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discussions I took the opportunity to ask the many fee-earners who were consistently achieving their agreed goals whether they felt any particular stress achieving their Client Time goals, and why they thought their Firm Time was so close to their WorkPlan™ expectations.

Universally the gist of the responses was along the lines of, "I never defer Client work so I can attend to non-essential Firm Time activity".

Elective or non-essential Firm Time grows to fill up a larger part of every day when there is insufficient Client work. After a while the relative components of the average day start to become ingrained, and it is then hard to get many fee-earners to see that a good

part of what has necessarily been their Firm Time in the past because of a shortage of Client work is actually elective or non-essential.

Obviously if the "spare" time was well used in additional effective business development activity, that is smart and desirable and in due course will lift Client work levels.

However in my experience much elective Firm Time is spent on activities which are of limited or zero value. In particular, the old adage about what happens with idle hands holds true, and some fee-earners occupy themselves for significant parts of every week with activities which are not only of limited value to them, but they involve other fee-earners as well... albeit often with the very best intentions, such as "helping to build firm morale".

The fact that firm morale is not actually a problem often seems to be missed! Further, those who are busy are often unable to be as completely involved in the elective Firm Time of this nature... they're busily involved in achieving or bettering their own goals.

The solution is to organise work allocation and business development so that all susceptible to the elective Firm Time syndrome are always the owners of a "healthy backlog" of Client work, and frankly have no time available for elective or "filler" Firm Time.

The Editor, Rob Knowsley, is a lawyer, admitted 31 years, who practiced successfully with firms of all sizes – city, suburbs and country...in Australia and New Zealand. As KMS Senior Consultant, his insights are further based on the experience of nineteen years of consultancy assignments, and telephone/e-mail support, for lawyers...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 business through his practical help...as multiple referees attest.

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Yes, Client file workload fluctuates, but aim to move from busy at WorkPlan™ levels to very busy, even hectic, for short periods.

If you think about it carefully, those areas of your practice which regularly fail to hit reasonable goals usually go from not busy enough, to busy for a while, and then back to the status quo. That's going to ensure they seldom operate in the true "valley of profit"... that wonderful area near the end of each period where you are past the breakeven point and all extra revenue is pure profit.

Firm Time...**What's a reasonable amount?**

Another topic which has cropped up a lot more recently as so many additional firms are implementing KMS WorkPlans™ is the amount of Firm Time which is reasonable to allocate to a particular team member.

While the broad answer is that it depends on the Business Plan of the firm itself and the way an individual can contribute skills and experience to the achievement of the plan, it also depends a lot on firm or team culture overall.

For example, in a team where a partner has all the channels for new work and spends large amounts of time bringing in work, supervising it getting done, and training team members on the job, our experience is that Firm Time actually recorded by team members is quite a bit lower.

Much of each day can be spent by fee-earners just getting on with the work, especially if it is allocated well to people in the team commensurate with their experience and is well supervised.

Some teams and firms have much fewer meetings and in-house activities which take up Firm Time, and team members have little need or time to be significantly involved in trying to get new work in, developing precedents or training others.

Firm Time might be as low as 1-1.5 hours a day, leaving the rest of whatever time the fee-earner has committed to available as Client Time...potentially billable time.

Remember of course that in the KMS WorkPlan™ system, private time is neither built in to WorkPlans™ or recorded by team members.

If a fee earner has committed to give you 8 hours a day and needs 1.5 for Firm Time, there is 6.5 available for working on Client files. If the commitment is 9 hours, and that is certainly pretty normal in WorkPlans™ we agree with fee-earners every year, a 1.5 hour Firm Time allocation will leave 7.5 hours Client Time per average day.

In a vacuum, 7.5 hours Client Time a day could seem very high, and without proper planning many employees would balk at it, as would many law firm managers. However when seen in the light of wide experience with a wide range of lawyers operating to KMS WorkPlans™, and when Firm Time is fully time recorded, there is nothing inherently difficult about the particular goal.

Other firms and teams have different cultures, and it is not at all unusual to see typical Client Time/Firm Time splits of 6/3, with quite a lot of time taken up in meetings, firm social/bonding activities, business development, training, and development of the firm's knowledge base.

Of course many Associates, for example, will have additional responsibilities for supervision and training and business development, again fitting with the culture of the firm or team they are a part of. Firm Time on average should be higher for them, and the Client Time goal lower.

At even \$295 per hour, an hour a day Client Time represents \$67,850 in raw Work In Progress per fee-earner, and it's all "Valley of Profit" stuff...so actually getting that extra hour with the correct

approach makes a very big difference to firm profitability and partner satisfaction and sanity.

There is no need here to debate which firm or team culture is the "right" one. That depends on a lot of issues.

The real point is that knowing what your present culture is, and how each individual is expected to operate within the culture, can make a big difference to how WorkPlans™ are set, and a huge difference, in either direction, to fees rendered and profit.

Firms which get hurt the most on loss of profit potential are those which expect lawyers to invest 8 hours or less in the firm, and tolerate 5 hours or less Client time on average of which quite limited hours are actually eventually banked as fees.

It is extremely difficult to make proper profits allowing this poor level of resource utilisation. Ironically, if leverage is good, say, for example, a sole practitioner having three employed lawyers and some paralegal and secretarial(quasi paralegal) support, the potential loss of profit is simply mind-boggling. See later in this newsletter for an actual example of a similar scenario.

For more information on KMS WorkPlans™, assistance with implementing them, and information on the miniscule licence fees involved in using them in your firm, please click here and email us... kmswplansandprofit@lawfirmprofit.com

Dramatic profit increases? Give me an example!

Throughout the many years your editor has been consulting it has regularly been evident that many proprietors of legal practices have very little idea the profit potential they are missing out on right in front of their noses with little change to firm structure, and just a few key changes to operating methods.

Here's a recent example from our files with a few details changed to protect the "guilty".

To chat with our Editor about issues raised within this newsletter call the KMS Management Support Helpline™

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In the last few months we consulted with a Victorian country firm which wanted to improve partner returns substantially while ensuring that the four partners worked no more than 8-hour days on average and had 6 weeks holiday every year.

Partner returns were at around \$250,000 each when we were consulted.... and the firm was hoping to get to \$350,000 per partner per annum including notional salary, without growing the numbers of people in the firm.

After a visit to interview all concerned we prepared KMS WorkPlans™ for all team members from secretarial support through to the four partners.

The firm's Business Plan 2006/7 now provides for a profit goal of over \$600,000 per partner per year....an increase of around 250% in potential profit... essentially from better planning and utilisation of existing resources.

Even if only half the improvements expected are actually obtained in the next twelve months, \$175,000 a partner extra goes a long way towards paying school fees, funding holidays, investment in super, holiday home or debt reduction, and can make big improvements in lifestyle.

The KMS bottom line... Lifestyle choices are not strictly the preserve of employees in smart legal firms!!

Reminder to Sole Practitioners and individual lawyers... experienced coaching is available, wherever you are located...

Recently we have had a spate of enquiries from Sole Practitioners throughout Australasia, asking if we could help firms as small as theirs, and especially asking how that could be done cost-effectively.

The cost-effectiveness issue is usually raised most forcefully by those practitioners who are in rural towns, in

far flung states, or in New Zealand.

We simply point to how we currently assist others in the same situation.

We provide a very low cost coaching service via email... and when the need arises we get on the telephone.

Cost-effective? If a starting investment of AUD\$285/mth... plus 10% GST in Australia... is too much for a lawyer in 2006 to get high quality help then we're a pretty poor judge!

We provide coaching also for individual lawyers in firms, on their own initiative or at the initiative of fellow partners or their employers.

Certainly those practitioners who do pay us at the beginning of each month by credit card feel they are getting great value.

Coaching clients can cancel at any time simply by notifying us before the due date.

To find out more just click here and email us...
kmsonlinecoaching@lawfirmprofit.com

Partner Holidays Tip...

There's little worse than beavering away at the practice diligently with much more than a nagging feeling that one or more partners are having considerably longer holidays than you!

I have always considered maintaining proper relativities in partner holidays to be a potential sore point in firms, and have found that tracking them accurately like employees is the best way to go...with an agreed starting point and agreed accumulated entitlement for each partner.

That way an accurate position is always there transparently, and an equitable position can be maintained, or if necessary adjusted for.

As with many other things in firms, some holiday variances are acceptable, and usually even out over time, but unacceptable variances can cause real

pressures on the partnership relationships.

The Power of Quality Feedback...

Good people seek feedback on how they're going. Unfortunately not everyone on your team will be top notch, and some people must be given quality feedback whether they seek it or not.

Having at least a minimum standard of written feedback every month is one way of ensuring that each team member gets no less than a certain level of feedback, but standardising is also useful for getting greater consistency between teams.

Where feedback is in a standard format, issues which need special attention in follow up discussions stand out, and there is greater likelihood that those who are charged with the responsibility do raise the issues and ensure steps are taken to change performance as required.

During the last financial year as usual KMS saw many examples of how the standard KMS FeedBack Reports™ assisted licensee firms to identify and address important performance issues.

One simple example will suffice.

A newly-admitted solicitor in a small Melbourne suburban firm was having her KMS FeedBack Reports™ looked at by your editor every month.

There were very important issues showing up around her low levels of recorded Client and Firm Time activities relative to her WorkPlan™ goals, and a series of discussions were held to pass on to her the available experience to enable her to fix the problem.

After a few months and some minor improvements it occurred to us that a big part of the problem may have lain in the sheer lack of hours in her work day.

Honing in on this issue brought the reality home to her that to deliver eight hours of effort for the firm (combined Client and Firm Time) she had to get to

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the office earlier than she had been or stay a bit later or a combination of these. She elected to arrive an hour earlier and the problem was fixed inside the first month.

The bottom line...this team member just had too much private time in her day and too little time for her employer...the FeedBack Report™ identified an issue, but it turned out to not be a problem with time-recording technique per se.

It may be of interest to some readers that her Client Time Firm Time split in her WorkPlan™ was 6.5/1.5...and this has been consistently beaten in each of the last four months...resulting in fees now flowing through ahead of monthly targets.

The bigger the teams the more important minimum levels of standardized feedback are. Large teams make spotting the problems early a lot harder without good monitoring tools.

KMS FeedBack Reports™ can be set up in any firm with even the most basic practice management reporting systems...and can be adapted to any practice management software (eg: Locus, LawMaster, Locus Affinity, Open Practice, Perfect Balance, KG2000, LawLine etc).

For a sample KMS FeedBack Report™ please just click here and email us your request for a copy...

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Not Enough Work To Do? Really?

Another of the very frustrating things for very busy people is that often team members who have said they are not busy, and have asked you for work, take an inordinate amount of time to get it back to you completed.

Worse still sometimes you have to chase them, and some even have the cheek to attempt to delegate it back to you uncompleted or even untouched!

I suspect that the problem is that old enemy...assumption.

You assume, usually incorrectly, that as they avowedly have spare time, they'll get on with the work you delegated to them promptly and get it back to you quick smart.

Wrong...they often really wanted the work so they had a bit more of a comfort envelope around them, and will not automatically give your work priority.

You still need to set out clearly your expectations and timeframes...perhaps even more so than normal because most of us acknowledge that we are most organized and get most work done when we are under a little pressure.

Another KMS Favourite Word... "Optimum"

"Optimum"... the noun... has as one of its meanings..."best practical solution".

We use WorkPlans™ to try to guide all team members towards their "best practical performance solutions" in any given period.

Reviews of firms across Australasia in the last week or so after end of year results became available reveals a typical pattern in many firms in which results are solid but not spectacular because while many team members have achieved their WorkPlans™, a good number have not.

The average results are then modest.

WorkPlans™ are never intended to be set to be, "as good as it gets".

Hence we can think of two interesting cases this year where firms were instructed in very large matters where it was hard to get temporary help, and people needed to work way above WorkPlan™ levels for months on end.

In each firm certain partners exceeded their fee budgets by well over \$100,000, but others were sufficiently behind their own targets to ensure the firm did not have a huge "bonus" year.

Close attention to individual FeedBack Reports™, and to Business Development where necessary, will help to ensure that the chances of this

phenomenon are reduced... that all team members continue to work effectively towards their own "best practical result".

Clearly it will be frustrating for those who have had to work extraordinarily hard for the large part of a year to find that there is absolutely no extra cake to be shared out.

Where's the Super-profit?... Case Study...

This week we reviewed the year's results for a small Queensland firm in a Regional town.

Key to the results for the year was the slippage in the two key areas...1. not ensuring that WIP was created to WorkPlan™ levels and then... 2. ensuring that the confidence was there to charge fees which would allow reasonable realisation... 73% realisation for that firm for the year was way too low.

Over \$500,000 WIP which should have been created according to WorkPlans™ throughout the year was not created.

Only 73% of Work in Progress was turned into bills as it was removed from the ledgers during the year.

This is having a dramatic effect upon what the two partners in the firm can earn...

\$500,000 even @ 73% is \$118,000 each for the year...not produced and can never be recovered...way less than the "best practical solution".

If the firm had realised say 85% on what it did record, fees would have been about \$200,000 more than it did render for the year ignoring the extra \$118,000 each outlined above.

Here we had a firm with partners earning over \$250,000/year despite obvious slippage of another \$200,000 plus per partner.

Gaps similar to this are very normal in firms of all shapes and sizes, and need to be hunted down in the interests of all stakeholders in the firms.

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