



Editor: Rob Knowsley LL.B MIMC
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KMS ProfitPower Tips for Lawyers™



Issue 28... **September 2006**

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Robservations

Welcome to the September 2006 edition of "KMS ProfitPower Tips for Lawyers"... Issue 28.

One obvious trend in the Profession, which is not being well grappled with by the majority of firms, is the way that wages have for some years been increasing faster than fee production, especially for younger lawyers.

Over time this has to lead to diminishing profits in any firm.

It is an issue which needs to be addressed strategically, but far too many firms are simply adopting a "policy"... more correctly just an "approach"... of trying to hang on to as many young lawyers as possible at all costs.

This is a recipe for disaster... if the firm cannot regularly generate good profits you might as well be out of business now because it's only a matter of time until you are.

Firms which want to survive and actually prosper need to find ways to get production up, and in this issue as usual I have addressed a number of areas where we have seen the difference made.

I trust that you enjoy the read, and find it both thought provoking and useful to you in practice. Please feel free to e-mail me any feedback by clicking this link...

Editor@lawfirmprofit.com

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Firm Time...

Q. What's a reasonable amount?

A. Whatever is genuinely needed...

Many readers will recall the discussion under this heading in the July 2006 issue. It attracted an enormous amount of interest, and a few points worth passing on really stood out.

Amazingly it has become apparent that some young lawyers on KMS WorkPlans™ had a perception that the guideline for Firm Time for them was actually a daily minimum requirement.

Irrespective of how much Client file work they had available they were trying to fit in an hour, or two hours, or whatever, of Firm Time each day!

One young Melbourne lawyer receiving on-line coaching even e-mailed me to the effect of, "Thank you Rob. I was worried about Firm Time. There are some days when I have been here working on client matters from before 8am to after 7pm, and no time for the firm unless I stay back even later and almost invent work to do, filing or the like. It is a relief that at the moment I can focus more on Client time".

I reiterate that Firm Time is budgeted for to ensure that necessary activities are allotted enough time over a planning period...a month, a quarter or a year.

For a fee-earner to average their Client Time goal on average it is axiomatic that they must do a lot more than average Client Time on many days to offset those days when they will be attending a seminar, preparing bills, or heavily involved in some business development activity.

The key is to concentrate on looking after clients, and the result will be that on some days Firm Time is almost zero.

It certainly has a way of looking after itself eventually, and the numbers do average out if there is enough Client work.

Readers will readily appreciate that this is a far cry from the situation we often see where lawyers, and by no means only young lawyers, allege that they cannot achieve reasonable Client Time per day on average because "necessary" Firm Time takes up 3-4 hours a day.

For young lawyers in particular,

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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necessary Firm Time should be quite limited as they often cannot bring useful skills to so many Firm Time activities yet.

How many very young lawyers can supervise others, be trusted to draw bills, handle significant Business Development, write clear relevant articles, run meetings or draft precedents?

Their main need for Firm Time is in receiving training...and they need plenty of it certainly, but in my view not nearly enough weight is put on the value of "training on the tools".

People learn faster when being trained on tasks on files, and they enjoy it a lot more after navigating through many years of mainly formal learning.

I am not suggesting that very young lawyers should be given files and made to "sink or swim", far from it!

However too many supervisors seem to assume that a lawyer cannot be given certain files because they are not yet experienced in that work, so they give them very little at all and management falls into the trap of putting these lawyers on WorkPlans™ which tend to be very low on Client Time. I regularly see people with a Client Time expectation of no more than 4 hours a day. Believe it or not, often they don't even achieve that!

Logically it follows that even with a total input of 8 hours a day, Firm Time is going to be four hours a day also. Given that we know how little Firm Time other than receiving training is really necessary at this career stage, it requires a big leap of faith to believe that a firm will actually provide quality training for four hours a day on average. Who of the experienced lawyers can allocate that much time?

What tends to happen is that lawyers get a little training, and spend the rest of the day "mucking about", including looking very busy researching via the internet, and reading lots of irrelevant material. This isn't mere speculation...the many who are getting desperate for Client work tell me this directly.

A practical example...take a young lawyer with a charge rate of \$195/hr. At 4 hours a day Client Time and an actual recovery of

75% the contribution to fees is about \$580 dollars a day.

If while training on the tools for a further three hours a day (and believe me 7/1 WorkPlans are very common in KMS client firms) such a lawyer could learn faster while doing work recoverable at just say 60%...\$117/hr...the fee uplift is about \$350/day or over \$80,000/year.

The trend in the profession is indisputably for wages rising faster than production, and particularly with young lawyers. Here is a good place to be looking for some of the answers.

Don't be fooled by arguments about "lifestyle" in setting Client Time goals. Any lawyer worth having would far rather be learning on tasks on Client files than pretending to be learning while stressing out about having nothing worthwhile to do.

Young lawyers certainly need supervision and they sap resources of experienced lawyers. At least get a more reasonable return from their early years before they thank you for all the training and head off overseas to put it to good use.

A final word on Firm Time for this item...**managing the Firm Time of people who are leaving....**

By definition, a lot of Firm Time is a supposed investment in the future of the individual and your firm. When someone advises that they are leaving you need to act quickly to put a totally different regime in place.

You cannot have a situation in which a lawyer winds out a month or more doing less and less Client work while filling up the day with more and more Firm Time.

It makes sense usually for a lawyer who is leaving to not take on new clients and new matters, but there is no reason why their skills cannot be applied almost exclusively to assisting others with Client Time tasks on their files.

The person departing must only retain files, which clearly will be completed and, with proper organisation, almost the whole of each day can be Client Time. Don't accept living with an appalling Work in Progress creation situation in the run down period. Swap that reality for the greatest

level of Client work per average day that you've ever had from that individual.

You may encounter resistance from those whose pride is too great to allow them to easily do tasks on files for other lawyers. Your answer..."Do it, and do it well for most of your day, or don't expect us to finance your lifestyle between now and when you leave".

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 an investment of AUD\$285/mth... plus 10% GST in Australia... is too much for a lawyer in 2006 to get high quality coaching 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.

Coaching is not intended to replace the intensive help needed by many firms to get back on track. In these situations a KMS Practice Health report, a Planning Retreat (in-house or at "Knowsley Park") or some in-house training will be more likely to be the assistance you need.

To get started promptly with highly effective coaching just click here and email us with some background details and we will be in touch promptly...

kmsonlinecoaching@lawfirmprofit.com

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

Term... "Healthy backlog"

As part of our focus on where profit profits for partners get eroded we are always concerned about fee-earners who are not properly busy.

Regular readers will understand that we continually stress that your profits are generated in the last 10-20 per cent of the day.

It follows that if team members have too little Client work to be generating Work In Progress between 80% and 100% of their Client Time goal, it is guaranteed that your profit will not just be eroded, but essentially obliterated.

All this can happen while you are flat out, taking work home at night, and coming to the office on the weekend.

I have seen fee-earners arrive at their desk in the morning with zero Client work to deal with.

The answer is to have a "healthy backlog". I consider this to mean that after a full day's work you had no emergencies left to keep you yet longer in the office, nothing critical to take home with you, but plenty to require prompt attack the next morning when you are in the office and less urgent things to do over the next week.

Most young lawyers are not put in this situation by their supervisors, and it costs the firm a minimum profit of \$50,000/year per team member in my experience.

Business Development

Tip #1...Databases...

Databases are the subject of much misuse by even the largest firms, but I wanted to comment in this issue on a phenomenon I often see within firms where there is an awareness that they need to be doing something about a decent database for Business Development purposes in particular.

While it might seem the most logical starting point, too many firms start by asking what information should be in their database.

There is a far more important preliminary

step. The management team should be asking the much more fundamental question, "*If we had a great database, with everything we needed in it, how would we integrate the use of the database into a program of sensible business development on an ongoing basis?*"

Too many firms quite assiduously collect data, but have absolutely no program for tapping into the value of the goldmine they have. They simply do not know what to do with the information, and a huge opportunity is lost.

The key to understanding how to use a database is to recognise that relationships are the key to a successful firm. Having a good amount of relevant data about each person and organisation you have a relationship with enables you to build up a better picture of them which can help you to better understand their structure, goals, legal services history, interests, challenges etc and thus have a much better idea of their actual or likely needs.

It doesn't take much mental gymnastics to move from a better understanding of actual or likely needs to a better focus on providing suggested solutions, tailored to those needs. In other words, a faster path to growth in the services you can actually deliver.... akin to use of a rifle with a great night vision 'scope, compared to blasting away with a shotgun by torchlight.

For some reason (which any one career is too short to fathom), lawyers are often fixated on playing the numbers game ad infinitum.

They can't see a seminar as a success unless there are over a hundred people there, they would rather send a letter to five hundred people than drop in and see ten, and they can't get started with sending relevant helpful information to a group in the marketplace unless they're sure their list of the members of the group is full and complete (as if it ever can be!).

Hence they often spend a lot of time making lists (or building databases) which they never use properly, sometimes not even at all.

While a database can allow easy analysis of huge volumes of information, its real value is not in the numbers game so to

speak, but in the way it allows you to rapidly focus on the very limited numbers of people you should be giving very special attention.

If the management team doesn't get this point, there's very little use worrying about what information should be in the database!

Business Development

Tip #2...The way lawyers see Marketing and Promotion...

Leverage is a key factor in ensuring partners an appropriate return on investment. Law firm managers have little difficulty agreeing on that.

However, keeping the right levels of Client work up to a well-leveraged team is closely related to how well you handle Business Development over the long haul.

Why is it then that spend on Marketing and Promotion is so low in most firms as a percentage of turnover?

Why is it that most organisations which monitor the mix of Expenses in law firms lump Marketing and Promotion in under "Miscellaneous" with a plethora of other items which don't seem to fit neatly in other categories or to justify an Expense category of their own?

A thought...maybe because it suits most lawyers to feel that the amount of work available at any given time is not something they can control, and therefore not something they need to devote much thought or energy to.

Marketing and promotion is a discipline that have a very healthy disregard for, and consider in most cases to be a terrific waste of money...money that they think mis-guidedly would otherwise be their profit.

The reality is that there is an awful lot of bad and misdirected law firm marketing out there, and far too few genuinely experienced marketers available to small-medium firms in particular, and quite a bit of money is wasted.

This should not be allowed to colour decision-making for the foreseeable future however, as smart firms are doing

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business development better and better and they will get a bigger share of the available work if other firms do not respond fully and effectively.

You need to be sure to get Marketing and Promotion out of the Miscellaneous cupboard and firmly into the mainstream where it belongs. From there, well executed, it will underpin your survival and prosperity.

Larger Firms Australia and New Zealand

POTENTIAL KMS WORKSHOP CONTENT

VENUES

To be arranged in your preference of in-house facilities or external facilities...

Construct your own Agendas for Partners or Employed Lawyers or both...

Choose from the following Potential Topics...(all but 6. and 7. are ideal for all lawyers...those two are better included in a Workshop for Partners only). Indicative times are given for each topic based on earlier large firm workshops.

Minimum per day per firm...4 hours in a single session, including a break for morning or afternoon tea.

Minimum session 3 hours...where more than one session...

Max sessions per day per firm two not exceeding 8 hours total... plus lunch and morning and afternoon tea breaks.

Session lengths are indicative only...if you have a particular interest in any topic it can be extended and customised for you.

1. How to dramatically increase your personal billings in just 30 seconds per day ... **Allow 20 mins.**
2. Engagement Management...The importance of managing your clients cost expectations by providing fee estimates up front and along the way – only positive surprises! ... **Allow 40 mins.**

3. How to turn apparent "tyre-kickers" into real clients to significantly improve revenue... **Allow 20 mins.**

4. Practical ways to get more work of the right type in the door... **Allow 40 mins.**

5. How to effectively manage your debtors. Managing cost expectations. How to deal with "bill too high" queries. Strategies for approaching clients with overdue invoice. Cash up front for "riskier/non corporate" clients... **Allow 20 mins.**

6. How to get employed lawyers billing an hour a day more than average and loving it. ... **Allow 20 mins.**

7. Why many employee incentive/bonus schemes are a total disaster...and how to better motivate your fee-earners to achieve reasonable goals...year in year out! ... **Allow 20 mins.**

8. Why **time recording** is even more important than ever and where **time-costing** can really hurt you badly. ... **Allow 30 mins.**

WorkPlans and Budgeting for Work in Progress production...

Managers these days are generally very well aware that the key to billings in any given month mainly lies in work done and recorded in earlier periods...sometimes many months earlier.

Hence, making sure that there is enough Client work to do, and that it gets recorded at least at WorkPlan™ levels, is crucial to future billings targets being achieved.

When reviewing the performance of many KMS client retainer firms each month I often see comments from managers trying to address an apparent shortfall of Work In Progress creation due to people being on leave.

It's worth a reminder that WorkPlans™ do take into account annual leave. Further, the target Work In Progress minimum is the sum of all daily average targets of people who worked in the month multiplied by the days they were present...so by definition a target will not be missed merely because there are a lot of people

on holiday.

The target will automatically reduce and adjust to the people who were on holiday if properly set up to do so, as in the KMS Reports... Author Summary™, Firm Performance at a Glance™ and Fee-Earner FeedBack Report™.

While the amount of WIP created may be less than the desirable average across the year it may still be very good relative to the WorkPlan™ targets of those who were in the office working.

Provided there is enough work, and provided it is captured accurately, Work in Progress production will even out across the year as everyone completes their year with roughly the correct mix of holidays and working days.

A reminder for those who are not yet using KMS WorkPlans™. Available working days for a firm will vary from jurisdiction to jurisdiction, but take 250 as a good average number. Each week's annual leave is 5 days off that, so a person entitled to four weeks leave will be aiming to actually work 230 days.

As a side-bar to this issue...while it would be nice in theory it does not usually happen that the demands of urgent client work on those troops left behind force Work in Progress creation up sufficiently while people are away to compensate fully for the fact that they are away.

It is not likely that those who remain can consistently add a third or a half of their Client Time target on average just because one or more people in their team are on holiday...even if workloads during that time seem extreme. It's just not practical and certainly not desirable.

In the most extreme example I've ever seen, fee-earners working on seven days a week under enormous pressure for months only added around 3.5 hours a day Client Time above their WorkPlans goals of 6.5, and were at the very limits of their capabilities.

It should be stressed too that the weekend and holiday work was treated as done on normal business days, so a casual observer would probably have expected the increase in average Client work captured to have been much higher.

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