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**March '97**

Editor - Rob Knowsley LL.B

# KMS ProfitPower™ Tips for Lawyers...

## for dramatically increased profit results!

Reading time: 6 minutes | Distribution :

### How to make another \$100,000 each year, easily...

**Feature article this month...page two**  
The basic answers to why so many lawyers make relatively little for their skills and experience...

**Partner charge rates increases... an Update...**  
In the September '96 issue of ProfitPower™ Tips we pointed out the dramatic impact you could get by getting a bit of confidence and lifting partner charge rates. Many firms have taken the bit between their teeth and raised rates since, and none to our knowledge have suffered client backlash.

Any partner, anywhere, country, suburban or City, with a rate of less than \$245.00 should have a serious look at whether they're adding real value to their clients' business and personal lives or not! If you are, charge for it!!

Don't do it just to boost profits. We've seen a number of firms take our lead, and use the opportunity to drop partner Client Hours in their KMS WorkPlans™ by as much as three hours per day. Lifestyle is important if you want to avoid burning out!

**Secretaries charging out... an Update...**  
Another issue dealt with in September was secretaries' capacity to generate a minimum of \$20,000 per annum each for you in collectable revenue.

A number of practices have got stuck into this with gusto... to their great benefit. One firm has found that even Conveyancing secretaries, working off paralegals, can generate well in excess of \$25,000 each, and surprisingly to them, the paralegals renderings have risen too, to well above the National average fees generated per annum.

Of course it means they need more work to keep the fee levels up, and consistent effective marketing is the key, as it is in any successful business.

After writing the September ProfitPower™ tips we found a Queensland firm with the capacity to generate \$800,000.00 per year from its existing secretarial support team!!

**Initial fixed price consultations...what was your reaction?**  
Shortly after we published the October '96 issue of ProfitPower™ Tips a solicitor rang us to point out that he'd been inspired to try something that had resulted in him making an extra \$300 twice in the first week on two small tasks, without any extra work!

Contrast his approach to the many pessimists who assured us Fixed Price Initial consultations wouldn't work in their practices.

Whenever you see something new, don't look for reasons to reject it. Look at how you could adapt it and make it work to your benefit in your practice.

The Initial Consultations Program is available to you on 1800 621 270.

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The KMS Management Support™ Program is an ideal way for legal firms to benefit cost-effectively from the KMS experiences acquired in 564 small/medium legal firms in all 8 Australian States/Territories.

• For information about KMS Management Support™ call 1-800-621-270 or Fax (02) 9651.3244

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**Back issues of ProfitPower™ Tips**...call 1800 621 270...don't miss out on interesting, useful, ideas from Sept, Oct, Nov, 1996...

## FEATURE ARTICLE

### **Why are so many firms getting such pathetic profit results?**

The number of lawyers who are apparently natural pessimists is quite horrifying. Every day we read letters and articles, listen to comments, and see behaviour that talks the profession down...and much of it is coming from lawyers themselves!

Frankly there's far too much navel-gazing, and not enough attention to the basics of why so many practices struggle to generate even reasonable wages for partners.

In our view it is because few lawyers fully understand the basic dynamics of the use of labour to generate revenue in a practice...and find it impossible to set a workable business plan (even for one year) and stick to it!

It's because most lawyers are appalling people managers, scared to tell people what they expect of them and to provide systems, leadership and rewards to ensure it happens.

This view is the result of nine years of consulting, overlaid on fifteen years of legal practice. Currently KMS has various degrees of involvement with 549 small to medium legal firms in Australia...and every day we see examples of how easy it is for firms to take their eyes off the ball.

### **Lies, damned lies and statistics...**

Too many firms are paralysed by their focus on percentages, attempting to play the game on a playing field that is very limiting to them.

This tends to lead them to believe that any improvement in profit will only be incremental, requiring huge effort or fantastic luck ( many misguidedly place great hope in changes of government).

### **Some examples in practice...**

In five recent KMS Practice Health Audits™ we found three one-partner firms, and two two-partner firms, where the extra revenue which should have been coming into the practices (based on the level of investment into people and other

resources) was an average of \$692,000.00 per practice!!

The lowest shortfall was \$360,000.00 and the greatest \$1,500,000.00.

In most cases virtually all of the extra revenue would be profit, because overheads were covered from the current paltry revenues. In some a little extra marketing expense has been necessary.

Many of the firms thought they were doing quite well (they were when compared to pathetic national average solicitors incomes) and only a couple considered they had real problems.

### **So what were the causes?**

In most cases there was a gross under-estimation of the potential of the people in the practice...the narrow, blinkered, low-horizons effect, mentioned earlier.

In one practice , for example, a young female Family lawyer was rendering fees of only \$150,000.00 per year...with an expectation of being able to lift billings 5% over the next year.

A KMS WorkPlan™ and face to face discussion later, she was happily shooting for \$295,000.00...and has exceeded these targets for the 8 months to the end of February. Ironically, no more marketing expense was required for this particular person!

### **Let's look more closely at this situation...**

This solicitor's employers were employing about five people per partner, busily engaged in keeping the practice going so all those people could make a good living.

They were too busy to set a sound business plan, and Workplans™ for each fee-earner, and to devise systems and monitoring to stick to the plans.

Because some of their people were performing well they fell into the trap of thinking this lady was merely young and would eventually get enough experience and make enough of a reputation to "come right". They underrated her current ability by not looking at it logically.

In our experience, under the traditional approach, just when she was "coming right", after way too many years, she would have got very big for her

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Rob Knowsley practiced as a solicitor for many years until 1988, in small firms and large, city and country, until going into consulting to the legal profession in practice profit improvement. He edits the KMS Newsletters as our Senior Consultant, drawing on his extensive practical experience in firms in every State and Territory of Australia. His insights, gained in practice and honed over the last nine years on consulting assignments in all areas of practice management and profitability, allow Partners in firms of all sizes to reap major benefits in profit improvement and enjoyment of practice.

boots (never having made the partners a penny) and demanded a partnership!

Many partners would have caved in and agreed, while other firms would have stonewalled and delayed, and lost their employee to another firm after all the training and pain they'd been through, including MCLE expenses, P.I. certificates, marketing costs etc.

Fortunately in this firm the solicitor is now making the partners about \$70,000.00 per partner extra per year...and that's just one employee!!

The story is pretty much the same for person after person in firm after firm.

There's very little positive correlation between the partners' investment in a person and the true current revenue potential of that person.

Quite the reverse, in many firms we still see the ridiculous formulas applied, so a solicitor paid \$50,000.00 is expected to generate only \$150,000.00 per annum on some idiotic 3:1 basis...again ignoring potential completely!

Under the KMS approach, the same solicitor may agree that **market salary** is \$60,000.00 and generate \$275,000.00, a net improvement in profit for the firm of \$115,000.00...every year!

Because despite all their training (or perhaps because of it), all the Quality movement, and all the seminars provided, most lawyers can't manage people and can't draw up sensible budgets and stick to them, we find it relatively easy to identify profit increases of over 50% for most firms even on the first quick run through.

Use the KMS Income Spreadsheet™ model on page 4 to quickly check out your own situation. It's available on disk from KMS on 1800 621 270 for \$295.00.(Excel or Lotus 123 are ok).

### **So what do you do?**

1. Use a simple planning tool to check broadly what your people should be capable of...
2. Explain to all fee-earners how to prepare a draft KMS WorkPlan™ (materials are available free on request, or can be found in your KMS People Performance™ manual: at Section 5)

3. Create budgets for the production of Work in Progress based on your WorkPlans™, and ensure they are met...

4. Institute KMS Cyclical Billing™, and ensure that the rate at which each fee-earner realises W.I.P. into collectable billings is monitored closely monthly and on a year to date basis for use in later budget adjustments...

5. As soon as you see sustainable performance, ensure you are paying market salaries and reviewing them on a regular basis...no silly incentive schemes!

6. Give fee-earners effective monthly feedback at least...preferably using a proven format such as the KMS Feedback Report™...

7. Through daily monitoring of collectable W.I.P. created and by regular checks on individual's file velocity and work quality, ensure that each fee-earner has enough to do to maintain budgeted levels.

If there is not enough Client work available to any fee-earner, immediately shift workload and/or beef up your marketing efforts.

To chat about practical issues surrounding this month's tips call...

**KMS Management Support Helpline 1-800-621-270**

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