



# KMS ProfitPower Tips for Lawyers™



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

## FEATURE ARTICLE

Your advertising and enquiry might be good - but how is your conversion rate? → P2

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## Robservations

As usual the year is rushing by - far too late to get away with wishing readers "Happy New Year"! Have a great year anyway!!

You will recall that in the December 1999 issue we asked whether any of your people would be in the office in January 2000 on 'cruise control'.

It proved to be quite prophetic.

Congratulations to those firms who remained focussed and reached or bettered target WIP per day on average.

In some firms some fee-earners fell as much as \$9,000 behind their adjusted targets... remember KMS always adjusts WIP targets to the days actually worked.

January is shorter, but people also seem to often perform relatively poorly on the days they agree to work.

There are some good reasons sometimes for having people in the office when there isn't much supervision and not enough for them to do, but we'd usually prefer to see them on holiday, and in the office when they can use the available resources properly.

The next big issue in Sydney is the Olympics... is your strategy in place?

Will those who elect to 'work' and have their holidays later, in effect get two holidays?

## ProfitPower™ Web Tips

You think you're finally getting familiar with the Internet? So what's a 'cookie'?

If you've assumed it's a minor issue, organise your Web browser to warn you every time someone wants to set a cookie on your computer.

Be surprised! Then spend a little time using information that's out there to understand more and decide what you want to do about it... at the office and on your home computer.

## GST Tip

Many firms are overestimating the cashflow impact of GST in the early months after 1 July 2000.

Remember to calculate accurately the GST affected proportion of your billings in the early months. Much of the WIP will be pre-GST for a while, although that will fluctuate based on your work types and billing policies/velocity.

During this time you will have almost normal GST credits to claim against your GST obligations... the impact may be far less than you think early in the new regime.

Remember there is a delayed payment regime in the first few quarters after GST comes in, for many taxpayer entities - the first return isn't due 21 days after the end of September... you

should have until 11 November 2000 - check how it affects you and build that into your cashflows.

Finally, for some companies there is a special arrangement about payment of income tax from the 1999/2000 year prior to the GST period. Some taxpayers will be able to defer tax over up to 2 1 monthly payments, interest free, to help with the transition period.

## Marketing Confidence

A wills review is a great excuse to contact clients, but make sure you think through how you are going to enunciate benefits to them from the process - give examples of how other clients have benefited.

Charge properly! We are still seeing way too many firms charging wills at ridiculously low levels.

Wills require plenty of time and thought, and are fraught with danger.

Don't breed yourself a class of client that will tend to undervalue your services generally by selling yourself cheaply in any area.

From what we see around the country, people are willing to pay far more than many solicitors perceive they are, and charging consistently better will do unbelievable things to your profit.

Don't allow one or two recalcitrants in the practice to charge lower fees than the rest of you... standardise and profit.

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The Editor, Rob Knowsley, is a lawyer who has practised successfully with firms of all sizes, city and country. As KMS Senior Consultant, his insights are based on the experience of twelve 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.



## FEATURE ARTICLE

### Yet another major profit killer...

You may be advertising, you may be getting good enquiry - but critically to your profits... what is your actual conversion like?

Most readers will know that the KMS ProfitPower System™ for ensuring you have enough work to keep existing or planned resources busy to WorkPlan™ levels is one of the keys to real superprofits.

In this article we give you a quick reminder of 1) why it's critical 2) how it works, and then a powerful example from a client practice (with kind permission from the partners involved!).

Why it's critical to your profit...

Whether you realise it or not, your superprofit is only made in the latter part of your effort in any period... after you've generated enough revenue to cover all your expenses, and a proper notional salary for yourself.

Of course from that you still have to pay any tax, and meet capital expenses, before you can start spending it on you and your family!

For many legal firms the breakeven point in these terms comes in the tenth or eleventh months of the financial year - April or May (and of course for many many firms it doesn't come at all)!

Virtually all revenue generated thereafter is superprofit because all of your major expenses are already covered.

Obviously the longer into the year you go with any resources you're paying for less than optimally occupied, the further into the year it's going to be before you reach breakeven point, and the less real profit you're going to make.

Firms which have systems to ensure their resources are properly occupied from July 1, and all year round, typically make the most profit.

How the KMS system works...

Let's use a simple example in which we assume a Commercial Lawyer and her secretary, both working normal weeks.

To be able to sustain long term billings of a combined twelve hours a day at \$44,275/month (we've used hourly rates of \$285 and \$100) this little team needs to average file openings of 22/month if average fees per file are \$2000.

Do your own sums, for each person in your teams, based on their KMS WorkPlans™... which include weeks worked, charge rates, acceptable Work in Progress Realisation Rates, and other key inputs.

The longer the team goes on opening less than 22 files per month on average (assuming they can't increase fees enough to compensate) the less profit you will be able to make from the eventual billing of their efforts.

When effort gets billed varies dramatically across work types and individual matters - you must have a system that focuses on whether there is enough work, it's often far too late to look at billings.

You must set targets for file openings and fees estimates and carefully track what actually happens.

Here's a classic example to demonstrate how easily you can get hurt badly on profit... eventually!

A Melbourne client of KMS has one small team in a particular work area with a target of 13 files per month on average at an average file value of \$3,000... monthly bills target on average \$39,000.

The lead lawyer got very busy and was in court a great deal, and management was focussing too much on billings, despite being very aware of the importance of file openings targets.

Files opened had dropped off for 10 months, yet billings remained acceptable - the danger was around the corner! During the period April 1999 to January 2000 file numbers

were only 9,6,7,6,6,9,7,6,5 and 9 - with a total of 70 and average just 7.

Worse still, fees estimates were at only \$1820 per file or \$127,400 for the period.

This should have been flashing real alarm bells as it meant revenue at some point had to be down \$82,600 on the files being opened, and \$180,000 compared to target for the ten month period.

Nevertheless for most of the period continuing reasonable billings obscured the problem.

Finally focus fell on the problem, and data on enquiries and conversions from various business sources was analysed.

Of the fourteen business sources being tracked for this area of law, Yellow Pages enquiries remained normal, but conversion had slumped dramatically, to a low point of one conversion per month, in an area where currently renderings were running at 49% of the total renderings for the work area!

Why?

The answer proved to be very simple. Yellow Pages callers have decided to refer to a directory to assist them to decide who to call. They decide to call you and they are ready for help... if they don't get it from you pretty well straight away they may say they're happy to wait for you to call back, but in fact they hang up and call someone else.

The lead lawyer had been busy in Court and in other ways, producing fees from existing work, but too busy to fully appreciate the rate at which potential new work was being lost. The firm was still making the same rate of investment in it's Yellow Pages ads but the investment was not being optimised.

The quick solution...

In February a young solicitor was given the role of taking the initial calls. Despite relatively little experience conversions from Yellow Pages rocketed to 9 in February and 12 in March.



They now account for over 50% of new files and total files are up into the low twenties each month.

Assuming an extra 5 files per month, \$180,000 per annum is now being injected back into the work area. These new clients are of course a rich source of future work, both by repeat and referral, so there's added incentive to keep all your eyes and ears open for these sorts of problems.

Can this happen to you?

Based on our experiences across Australia it already is!

Few firms have good enough tracking systems in place to match the effort they are putting into marketing.

We are constantly being told that certain types of advertising don't work well, but often the enquiries are there and just begging to be converted.

Are your people really available? Are they well trained in telephone selling techniques? Is their attitude good?

If your firm was to lose \$180,000 off the bottom line what would it do to partner profits? Are you losing big sums already because your systems for planning the optimal resources utilisation need improvement?

## Critical Success Factors...

Each issue we look at areas where you can profitably direct regular attention, leading to solid improvements to the bottom line...

A fee-earner with low billing in a given period isn't a problem per se... it may be totally inappropriate to have billed any more.

A fee-earner with billings lower than he/she should have rendered in that

period given the available WIP and the state of the matters involved is attempting, usually unknowingly but quite efficiently just the same... to send you broke!

All your systems should be geared to ensuring that work done which is appropriate to be billed gets billed at the earliest possible time.

Get the inward cashflow cycle started early and take some pressure off yourself... especially with the anticipated disruption of the GST introduction just around the corner.

Get cashed up in the next couple of months as an extra bit of business 'insurance'.

## Practical WIP Tips...

Tip #1... When someone joins your firm and brings files with them, enter up a reasonable lump sum of Work in Progress on your system for each file. This will reduce upward skewing of that person's WIP Realisation Rate in the future months when those files are billed...

Tip #2... When someone leaves don't allocate their fee-earner number to the replacement. Transfer all uncompleted files to other fee-earners and all the unbilled Work in Progress of the person who left to a 'dummy' fee-earner called "People who have left" or similar.

This will ensure that billings of remaining fee-earners aren't inflated by realisation of WIP they never created.

In your budget allow for the dummy fee-earner to keep rendering something per month until all the WIP is gone. In most firms it never is, and in some months the dummy fee-earner renders the highest totals of all because of WIP coming home to roost from everyone who has left over an extended period!

## Buying or selling a firm or an interest in one?

Know the correct value before you start.

Negotiations which commence from the wrong point usually end up at the wrong point!

There are often great difficulties both psychologically and politically bringing parties back from a "position"... even when new evidence of proper value emerges during negotiations.

Don't feel your way into a negotiation. Go in well prepared and well informed and things will generally end up where they should!

We've seen a number of negotiations in recent months which got off to bad starts... good luck and good management helped to get them back on track but it's not always possible!

## Too much cash tied up?

Tip #1... when cases are settled that require costs negotiations, take it out of the lawyers hands and get a professional to do it - part time if necessary.

Benefits... they'll focus on it and it'll happen, so you'll get better amounts (every extra \$500 is \$500 superprofit!) and faster turnaround.

Tip #2... as soon as the agreement on costs has been reached, hand the matter to your credit management people in the same way you would any other Debtor.

You'll benefit from early, regular, focussed follow up and you'll be paid much earlier on average.

Once a lawyer "finishes" a case, it's unusual for enough really effective focus to be applied by the lawyer to your cash... they are focussed on the next most pressing case!!



## Why most legal firms never have the right amount of floor space...

Practitioners who have had KMS involvement of one type or other with planning moves of premises will be familiar with our constant refrain that we have seldom seen legal firms with sufficient premises for reasonable growth in all the years we have been either practising law or consulting to legal firms.

There seems to be a boom and bust mentality in space planning in many legal firms, and in fact it is a very common phenomenon to see firms which have very recently acquired new premises, either through purchase or lease, fully occupying the premises with no room for expansion.

Where we have become involved early enough, we've often been able to point out to partners in firms proposing to move that they have not taken into account sufficient natural growth for far enough ahead to make the move fully worthwhile.

In some cases we have been able to suggest that planned moves to sub-let substantial slabs of space for considerable periods of time are not proceeded with because better analysis using simple planning tools indicates that the space will be required for natural growth in the legal firm well before it could be obtained back from the sub-tenants in the normal course of events.

Why do we think this happens?

It appears to be tied up with the under capitalisation of many legal firms. The shortage of working capital (whether fully recognised or not) tends to inhibit partners and make them unduly cautious about carrying suitable space as a natural consequence of doing business and planning growth. Horizons are relatively limited and there is an abhorrence of empty rooms which appear to be a waste of money. This is a very short term view and as we have seen will often lead to later difficulties of a far more serious nature.

Many readers will recognise the tendency for partners in legal firms in the past to not actively plan to put new people on to force expansion, only reluctantly putting new people on when the signs of serious malaise were present.

Files had to be stacked all over the floor, clients screaming for work which was behind on delivery times, and too much work to get bills done, before a partnership would take the "huge risk" of putting on another solicitor.

With this mentality rife in many firms until relatively recently (and frankly still in existence in many firms) it is not surprising that proper planning for the office space needed for reasonable growth has also not taken place.

Further, those firms which have been bold in their expansion predictions and have allowed significant additional space have in many cases not gone on to implement a marketing program to ensure that the expansion took place, and it often hasn't.

Worse still, in some cases, there has been a contraction of work, often because clients perceived the firm to be too busy and were not referring all the work they could and certainly not making recommendations that others instruct the firm.

For one reason or other the additional space which had been provided was not utilised and the firm is subject to the "once bitten - twice shy" syndrome when next planning office space requirements.

To properly grow a business you need to understand clearly the volumes of work which you need to keep the present people occupied and how you are going to go about ensuring that that work continues to come in, or starts to come in at that level, and how you're going to cope with the transition to the next level where you need additional people.

If you get it all right and have a planning and monitoring program which ensures the right work of the right types is there, growth will be constant, if not smooth. There will be fits and starts and steps and plateaus in the growth, but it will come inexorably and the space that you have set aside will get used.

It follows that if you are pursuing a sound business plan you will be actually planning to move out or move into the next slab of space quite some time before the present premises are fully occupied. This is the point that partners in legal firms need to recognise plainly and deal with.

In a well managed office there will only be a fairly small point in time where all space is occupied with none to spare. If this were not the case the business would either be beginning to stagnate, or already going strongly backwards.

In a business which is going strongly forwards there will be a demand for facilities and resources running ahead of the practice results all of the time, and this needs to be organised through the provision of appropriate working capital, whether it be by retained profit, or borrowings, or the more usual mix of both.

There are useful planning models available to help plan space requirements and they allow multiple options to be prepared on a spreadsheet for you to check different possible scenarios, to come up with the right balance between short term needs and longer term needs.

Of course, if the human resources which you presently have are not properly occupied for the majority of the time the profitability of your practice will deteriorate very rapidly and you will have little confidence in committing to the full provision of the working capital you really need to run a balanced, but growing, business.

Strategically it is very difficult to run a practice which is deliberately not growing... consistently doing exactly the right volumes of work at the right prices to provide you will the sort of profit returns you want for your investment of time and money.

Keeping well leveraged and getting the right sorts of returns is generally easier in a well managed growth situation.

Given this, it is important that premises are well planned for in the same manner as is required for all other resources. ▲