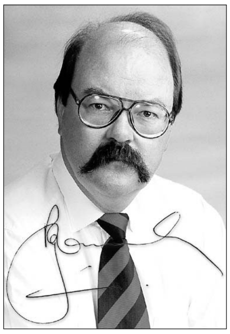

KMS ProfitPower Tips for Lawyers™

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

FEATURED Tips...

Practical, Technology & Success

Robservations

Are you earning what you deserve?

Over thirteen years of consulting to law firms I've had all sorts of feedback about my personal style… thankfully enough of it sufficiently complimentary to prevent immediate wrist-slashing, and some pretty well unprintable.

On balance I think I can summon the enthusiasm to keep plugging on!

Recently I had a conversation with a sole practitioner at a seminar when he baled me up over coffee, and pointed out that his burning memory of me was a comment I made at a KMS ProfitPower™ seminar years before that, "An income of $150,000 per year wasn't worth a partner getting out of bed for"!

I didn't have the heart to ask whether he was in fact now making that but it caused me to think about what figure I'd now be slotting in there for the $150,000.

I guess it would have to be $250,000.

There's been an enormous focus recently on what firms are having to pay for good employed lawyers… and how to pay what's needed and still make proper profits.

With all the focus on keeping good employed lawyers have some partners taken their eyes off what their own goals for returns should be?

I'm often asked what's a reasonable profit for a partner to be making? Of course there's simply no short answer.

The KMS approach is to advise on setting each firm up to pursue optimal returns from the investment of resources by <u>that</u> firm.

Optimise returns from whatever you are prepared to invest in your time, your money, and your assets, client base etc.

Each firm, and frankly each partner, is putting in different levels of investment… they will certainly have different optimum returns even if they are equally effective.

A key factor is the number of partners you share the returns with.

Sharing firm profits of $500,000 equally may indeed be worth two partners getting out of bed for.

Bring in another partner, increase profits by $200,000 and share the $700,000 by three and you've gone backwards.

Obviously if that's accepted as a temporary consequence of a strategy that's acceptable, but often it's just not thought about sufficiently.

Partners are supposed to significantly add to the strength of a firm and must be selected with enormous care.

If a partner can only render fees, even good fees, you may have been better off with more employees instead, especially if you can hire the right people in business development, finance, credit control, Information technology, human resources, general office management etc.

The KMS client base is almost exclusively small to medium legal firms, and most of the medium sized clients were much smaller when we commenced our coaching relationships.

Are there firms in which the partners are earning over $250,000? Yes! Over $400,000? Yes! Over $600,000? Yes!

The 2000 Financial Management Research Centre Annual Survey of the Profession (available only to participants… so participate if you don't already) makes clear that in the top 25% of firms by profit (excluding large CBD firms) average per partner profits were as follows in 1999/2000.

Smaller CBD firms… $332,000 / partner.

Suburban firms… $515,000 / partner

Regional City/Large Country Town firms… $410,000 / partner.

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 thirteen 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.

They are better now… and the 2000/01 Survey interim results reflect that.

What are the key drivers to optimal results?

- Partner awareness of the factors that make the ProfitPower™ difference…
- Careful planning with and monitoring of each team member with KMS WorkPlans™…then effective feedback…
- Willingness to inject whatever working capital is properly necessary to make it all work… borrowings and/or owner equity…
- Goals for new file numbers in each area of the practice…
- Business Development plans carefully established and consistently implemented to ensure there is enough Client work for all team members to fulfill their WorkPlan™ goals…
- Careful monitoring all of key trends…
- Fast action to fix or improve any processes which are not delivering desired results…
- Courage, discipline and focus…

So, the answer to the "partner returns reasonableness" question was simple after all…wasn't it?

KMS Practical Tips...

Tip #1 Do your employed team members think you earn too much?

This follows on directly from the partner earnings discussion above.

Typically legal firms have described all net earnings as "partner profits" in their Budgets, in their results, and in their Accounts.

When firms get close to optimising, the numbers can be quite high, as we have seen.

Try as you might to prevent it, information will leak out to non-partner team members.

The KMS view is that a few simple techniques can help to reduce the apparent (incorrectly understood) gap between employees incomes and partners "incomes" to more easily accepted ranges.

In the FMRC Survey mentioned earlier the Survey's co-ordinators have applied an average Notional Salary of $120,000 per annum in an attempt to get closer to real profits.

In many KMS firms the actual notional salaries used are far higher, up to $175,000.

This treats partners as working employees for determining real profit, reducing apparent profit and establishing more acceptable gaps between partners and employees on salary.

Many legal firms do not include interest on proprietors' capital as an Expense… despite having no difficulty doing that for more "arms length" lenders.

With capital usually quite high, and a legal practice being a reasonably risky venture, very large sums can be deducted from true profits and shown as interest in this area.

Superannuation and directors fees can also be areas to consider showing separately.

Interestingly firms in the FMRC Survey with turnover as high as M$1.9 per annum had no true profit margin at all after deducting just $120,000 in Notional salary per partner.

Firms in the next size range had just 10% true profit.

Setting up your budgets and reporting this way can have a benefit also in focussing partners on the relatively poor results being obtained for the level of resources being invested.

Tip #2 How to sheet home that Employer Superannuation contributions <u>are</u> part of your employees' remuneration

Compulsory Super contributions for most employees go to 9% from 1 July 2002.

It's disappointing that far too many supposedly intelligent employed lawyers still want to discount Super in their assessment of whether their remuneration package is appropriate.

It is an important benefit, coming from fees generated in the practice and straight off the bottom line returns to partners.

<u>Partners</u> only get Super if they create it.

When your employees retire they'll be living partly on superannuation funds you've paid for them.

Don't be frightened to stress the all up cost to you of a remuneration package.

The fact that employees don't get a cash benefit from it now is even more irrelevant than that you have to deduct a certain amount for their tax obligations and they don't get their total gross pay.

They <u>are</u> getting a <u>present</u> benefit in knowing that a fund is building up for them which they can also add to if they choose.

The bottom line in remuneration is whether you are paying at least market remuneration for the employee, when compared to similar firms he or she would be prepared to work in, and who would be prepared to have them…not what the biggest firm in town pays, or what some incredibly demanding, egomaniac ,competitor pays lawyers to try to keep them for a little longer.

Tip #3 Planning where you want to go really does increase your chances of getting there...

We are still seeing plenty of firms with no Budgets and no Business Development plans…and frankly they're generally getting where they planned to go… nowhere.

Even of the firms which do budget... many aim far too low, basing goals heavily on what has happened in the past. In this area be mindful of Henry Ford's quote, "History is bunk".Focus on what's possible, on optimising.

Applying some basic strategies can lift profits enormously without any really significant change in the total level of your effort, just the effectiveness of it.

Tip #4 Is your unbilled Work in Progress pool going to grow or decline this year?

A basic trap in simply doing projections based on what has happened in the past is illustrated by this example.

A firm billed around $4 million in 2000/01. Various rough rules of thumb and plenty of looking at history led to a budget for fees in 2001/02 of 10% higher…around $4.4 million.

Safe? Cautious? No!

A quick analysis of opening and closing WIP balances, and WIP created in the year, showed clearly that the previous year's fees were partly derived from a reduction in the unbilled WIP pool by over $500,000… the result of sharply increased file velocity in one practice area through the introduction of better work practices.

Unless this could be repeated, and it couldn't, the fees of fee earners involved would drop to more normal levels, about $400,000 lower.

So a cautious budget growth estimate of $400,000 would in fact require increased production of around $800,000… probably too big an ask for that firm.

The other side of the coin is making sure you budget for additional fees this year if a big reduction in WIP is likely despite good ongoing WIP production…but don't mis-read the fees as improved production this year…they probably aren't and automatic bonuses and increases in remuneration should not necessarily follow.

Technology Tips…

Tip #1 How often are you being told , "It can't be done".

Most people prefer to operate within comfort zones, and too few people are "Can do" types.

Every week I see situations in which managers are told, "It can't be done"…in situations where I know from firms in other parts of Australia that it can.

It often isn't even your team members' fault. Too many suppliers are focussed on Sales and too little on Support. Whether they are lazy, tired, or lack customer focus, they often fob enquirers off with easy answers which can lead to a lack of progress.

Partners are often too busy to dig deeper. I suggest that if what you want to do is important you should dig deeper. Talk to the key people at your supplier yourself, read manuals and call fellow practitioners.

E-mail us at KMS… kmsrob@bigpond.com …and see if we can assist with our exp erience in almost 900 Australian firms over the last 13 years. We can't promise that we have all the answers but we know we have quite a few.

Can't be done… rubbish!

Tip #2 Don't lightly dump your Practice Management software…

I'm still regularly asked to recommend a new Practice Management system for firms.

My first question is always, "What are you using now?".

It's incredible how often the current system is in fact the one I would in all likelihood have recommended.

Frustration is the main driver for change in this area. Frustration at apparent lack of service and support, frustration at cost of support, and frustration at being told too often that, "It can't be done".

Get to the bottom of whether your team members have established a good working relationship with the representatives of the suppliers…check that out personally.

Management has to often take a fair bit of the blame, for not being clear what they expect from their system, current or proposed.

Too often price is seen as an issue… partners forgetting that it's usual in life to get what you're prepared to pay for.

If you're thinking of changing don't hesitate to call the KMS Management Support™ Helpline and arrange for a chat with me about the issues. It could save you an enormous amount of time, money and angst.

Tip #3 KMS Performance at a Glance™ and Fee-Earner FeedBack™ reports…

Information on how your practice is going and feedback to your team members are very important.

For two formats which are proven in practice have a look at our website… www.lawfirmprofit.com …in the section headed "Management Communication"…then don't hesitate to e-mail us with queries or for further information.

Tip #4 Printer cartridges… a cautionary tale…

Desktop printers are so cheap now that everyone who needs one has one. Colour printers start at well under $300.

My first generation of colour printers has already found their way into the storage cupboard… surpassed by cheaper faster versions.

While the printers are cheap… ink cartridges are not.

Here's a trap for young players. When cartridges are running low on ink, lights flash on the printer and warning messages appear on screen.

Usually if you remove a cartridge from a printer it renders it useless, even if it is almost full of ink… expensive.

If you are printing in colour and the warning lights flash do not make the assumption that it is the colour cartridge which is running out or has run out. Printing in colour often utilises the black cartridge too and it may be the offender.

Your Editor found this out the hard and expensive way… removing and replacing what turned out to be a prefectly good colour cartridge only to find the printer still not responding.

Using the software to check the problem revealed that it was indeed the black cartridge which needed replacing.

Who said something along the lines of “Act in haste, repent at leisure”?

Critical Success Factors…

Tip #1 Employing people with the right attitude is the key… how about trying some techniques outside the square?

Employment processes are often very poorly set up and / or followed.

Often not enough is done to get a better idea of a potential employees attitude.

Intelligent people with the right attitude are what you need.

The higher the level of appointment the more you need to check out attitude.

Do you take a short-listed proposed senior employee out for dinner… to the tennis, golf, theatre or whatever?

Get them out of the office into real life situations and listen carefully. Take other valued employees along. Is the prospect really a fit?

Not prepared yet to go this far? Try this… when an applicant arrives at your office meet them as usual. Usher them into an interview room and give them a simple questionnaire to cover all the basics, which ends with a request to write down in 15 minutes what they feel the purpose of a modern legal firm is and what the key drivers for success are.

Ask them to set out what their preferred role is, what their goals are and what their key responsibilities, obligations and accountability should be in their ideal firm.

Read what they’ve written carefully. Is it logical? Does it have glaring errors, omissions, or clashes with your own philosophy?

If it seems worth continuing, debate their points of view, put them under a bit of pressure, and observe carefully how they respond.

If you decide to offer them a position in due course, and they accept, put a copy of their written response on your file, and give them a copy, as a point of reference for later discussions if necessary.

It might make a change to some of the boring and relatively ineffective interviews that are conducted around Australia every day.

I can think of many classic examples of people who were employed by me and others in the past who would not have survived this process…. their attitude was too far from what was needed… but they had learned to disguise that in the standard interview process.

Tip #2 …Some things that will eat into your potential revenue production and therefore your profit bottom line…

People taking too long… after they start with you… to get up to speed in doing work, recording the work, or achieving satisfactory realisation on the work when it is billed or the debtors are being collected.

People being at work during normal “holiday” periods (eg: between Xmas / New Year and early January, and not being very effective …then taking their holidays at your normally busy times of the year.

Family illnesses…. What can happen with illnesses of fee-earner’s spouse, children, parents, siblings, grand parents etc. is that sometimes for quite long periods there is poor production due to the focus naturally being elsewhere.

Important tasks usually seem to get fitted in, but somehow often billing does not, compounding the problem. Even after the recovery (or unfortunately, the death) of the relative, the financial situation takes an enormous time to return to equilibrium because there is an unsatisfactory level of work in progress in the files the fee-earner has, and the fee-earner takes quite some time to get back up to speed.

Of course, during all of this time it is usual for the salary, especially of senior fee-earners, to run on at full pace, and also all of the associated overheads remain.

It doesn’t take many of these situations in a year in a medium sized firm for the partner true profits to evaporate, and it requires some careful planning and sensitivity to manage the situation.

Usually talking about options openly and honestly with the employee affected is best policy…as they may have had the issue as a weight on their mind and appreciate you initiating a discussion about mutually satisfactory adjustments.

Matrimonial and other relationship problems...

The natural wind down when someone is planning to leave….Usually this is relatively short and it is natural… in that you do not want someone to leave with a full workload which creates additional difficulty handing over to someone else.

On the other hand, if for example, a fee-earner decides to go to the Bar, there is usually a lead up period during which time production can drop off dramatically, although wages seldom do. ▲