



KMS ProfitPower TipsTM for Lawyers



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

Featuring:

- ♠ Marketing, ProfitPower & Small Business Tips
- ♠ What have KMS been up to?

Robservations

Welcome to the July 2004 edition of **KMS ProfitPower Tips For Lawyers**.

At the beginning of a new financial year for most readers I turn my mind to the planning that needs to be done to really make a difference in the coming year.

There is always room for improvement, and often the room to improve is far greater than management may perceive.

Your goal should be at the very least to optimise the utilisation and results from the resources you are currently investing in. To fail to do so is simply to waste profit.

The area where huge amounts of profit are lost every year is in failing to reduce the gap between current performance and optimum performance...usually because optimum performance is not even identified.

Because you are already carrying all of the overhead at current performance levels, bumping production up a few notches towards what your team is capable of will drive extra revenues into the firm at little or no extra cost, dramatically improving profits.

Clearly step one is to have an effective process for working out what optimum

production should be, and what billing should follow.

Planning inward cashflow optimisation involves looking at existing Debtors (both gross amount and average age), the planned production for the year, and the closing Debtors position you'd like to achieve.

The next step is one which is all too often ignored or addressed only superficially...analysis of required new file openings to sustain the optimum production you have identified.

Team by team you look at how many files the team would need to process in a month or a year to be able to fully utilise resources.

This involves analysis of average file values, and the setting of goals in each team and each file type.

If you start with the average file numbers and values at present, and analyse where they are coming from, it makes planning Business Development for the coming year a lot easier.

This is not of course an exercise to be completed in June and then ignored for the next twelve months.

Business Development plans need to be tracked, and investment of time

by team members recorded and compared to results in achievement of the file opening targets set.

Where necessary beef up or redirect the efforts.

Lost production opportunities become harder to rectify as months go by, and soon reach a level where it is physically impossible to catch up.

In my experience there are phenomenal dollars to be gained from truly focussed planning and implementation directed at optimising use of resources.

Usually there are under-utilised team members who will happily fill their days with the right volume of work if it is made available to them, and the role of management is to make sure it happens.

The most common source of tension and dissatisfaction I see in firms is team members with not enough work for the targets they have been set.

Unfortunately many firms have "addressed" the lack of work issue by setting unrealistically low production targets, locking in under-utilisation of resources, and effectively abandoning the true commercial profits in the firm that they have never effectively mined for the benefit of all stakeholders.

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The Editor, Rob Knowsley, is a lawyer, admitted nearly 30 years, and has practised successfully with firms of all sizes - city and country. As KMS Senior Consultant, his insights are based on the experience of sixteen 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.



ProfitPower™ Marketing Confidence Tips

Tip #1... Never operate on the basis that every client has done, or will do, a survey of the whole legal services market before engaging you!!

This seems too obvious to even be an issue, but I regularly see lawyers who don't understand that if they perform well at the "moments of truth" in the engagement process, the prospective client will be sufficiently confident to proceed without comparing price and service all over town first.

Behaving incorrectly in this way has a huge practical ramification because it affects your confidence, and that affects the level of reassurance a prospective client gets.

Be professional, be confident and courageous. To not do so is to create a self-fulfilling prophecy and an uneasy prospect will be more likely to do more research to put themselves at ease.

Assuming a person will get comparative quotes, and using language which encourages them to do so, will often lead to you quoting fees which are too low for you to make a proper profit.

You may well be busy, but your margins will be inadequate.

The bottom line...

Most people are far too busy or lazy to hunt all over town for a lawyer. For whatever the reason, they're talking to you...don't blow the opportunity!

ProfitPower™ Tips

Tip #1...

Over the years KMS has consistently stressed to lawyers that there are often dramatic profit improvements

already in the firm sitting unmined ready to go.

This was demonstrated powerfully in a small firm in country Victoria, with one partner and two employed lawyers.

The firm was hardly breaking even, with Partner returns well below a proper salary for the partner, and she was obviously having problems with cashflow, reinvestment, staff retention, etc.

KMS initial analysis indicated that within the existing structure, paid for by current expenses outlays, profit could be increased in excess of five times current levels with proper volumes of work.

This was not a time to be slashing outlays on resources.

The focus had to be on business development initiatives to drive the right volumes of work into the firm as soon as that could be achieved, and an excellent time recording system to ensure that the resources were applying themselves correctly to the available work and billing it properly.

Suffice to say that the required initiatives are now under way!

Tip #2...

Watch out for the unfunded employee entitlements sting!!

With the profession currently going through quite a dramatic shake up in NSW as a result of the ripple effect caused by the Civil Liability Act and other changes, there is some unusually rapid consolidation of firms going on.

The issue of employee entitlements is causing some real problems and the issues obviously have impact in firms well beyond NSW.

Some vendors are not properly aware of the full extent of their obligations to some staff and where a proper

allowance is not made off the sale price for the purchaser, a purchaser firm or the merged entity can end up with some very nasty surprises.

This can, to some extent, be the case even if the vendor has purported to have paid out the affected employees.

Prospective purchasers have been reporting to your Editor anecdotally that the level of redundancy and other entitlements is turning out to be a deal breaker in some cases...the vendor simply cannot afford to proceed when the net price is adjusted for anticipated entitlements.

The bottom line...

Unless you're an expert in the area it pays to get some early expert advice.

Critical Success Factors...

Law Is A People Business And Management Really Has To Know How To Manage People

Contrary to oft-expressed popular opinion outside the profession lawyers are people!

People come in a wide variety of colours, shapes and sizes, but more importantly they also vary hugely in attitudes, skills, personality, intellect and behaviours.

It matters little whether they are junior or senior, employees or partners...most need careful effective management.

In my experience the large majority of lawyers are not naturally well organised, clearly focussed on the right things, good people managers and willing to consistently adhere to sensible management systems.

Despite this most clearly believe that they are somehow entitled to good incomes, good lifestyles, and a certain amount of "respect".

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What are the ramifications of this reality for management of a profitable legal practice?

- ♠ Your firm's reward system needs to place clear emphasis (in the right balance) on behaviours which work consistently towards achievement of the firm's Business Plan...and you need to apply the reward system accordingly...not wimp out at crunch time.
- ♠ You simply cannot assume that once you've explained what you want people to do and why, they will not only do it properly but do it consistently. The sorry fact is that most will not.
- ♠ You need to decide on the style of practice you want, to get the right balance between culture and enjoyment of practice on the one hand and a proper profit return on the other. Having done this, hire for the attitudes which will fit in with what you're all about.
- ♠ Keep talking to people regularly about what you want and how you see them going in providing it...and be firm and fair...you've got far too much at stake to be soft.
- ♠ Cut dead wood early. In my experience dead wood never suddenly rejuvenates and turns into a rose.

Does this mean you have to be a very effective manager of people to have a truly successful practice? You bet...and the results are well worth it!

ProfitPower™ Small Business Tip...

How To Guarantee You Waste Thousands Of Dollars In Cash Without Really Trying...

Never assume that when you make a capital purchase which includes GST that it has been properly taken up in

your accounts... and you have claimed the appropriate GST Input Credit on your next Business Activity Statement.

Some of the rules about what can be claimed and when are complex, and especially in relation to things like Vehicle Leases and Commercial Hire Purchase.

As a result of a discussion about a recent vehicle CHP agreement, and how to treat GST upfront and ongoing in monthly payments, your Editor gave thought to whether all past major capital purchases had been treated correctly since GST was introduced.

The result...

Between management, Bookkeeper and Accountant we'd let thousands in GST slip through the cracks unclaimed... largely as a result of not claiming an Input Credit on the upfront GST outlay while also failing to claim any GST in monthly instalments.

GST on Residual Payments is another area to watch closely.

The key is to have an effective internal system which ensures that GST inputs on non-expense items are addressed as fully as they are on Expense items. This was our weak point, and it is not reasonable to expect your external Accountant to check this sort of detail for you.

The bottom line...

It's difficult enough to create real profits (and reasonable disposable cash) in small businesses, without literally handing thousands of dollars in after-tax cash back to the Government.

If you're not absolutely sure your team has been getting it right it's well worth revisiting. The GST Inputs can of course be properly claimed in your next BAS...improving cashflow accordingly.

Management And Personal Organisation Tips You Won't Hear From Us At KMS

#1... When a firm is bleeding to death it's important to first get clear Vision and Mission statements in place...in a pretty binder with a lovely coloured graphic on the cover.

#2... Never take any decisive action in the best interests of all the stakeholders in the firm... because there's always someone who will be miffed for a few days that they weren't consulted, or think it means the firm is about to fail and they'll be out of a job.

What On Earth Has KMS Been Getting Up To In Recent Times?

It goes without saying that an important part of Business Development is letting people know what it is you do.

Simple enough...but after years in business it's also easy to fall into the trap of assuming that clients, prospective clients and referrers are up to date with all the areas you'd like to offer services in.

Recent requests of KMS along the lines of "Do you do such and such", and "Do you still do XYZ?", reminded us that we are not immune to the risks of assumption.

From time to time we will accordingly list some activities we've been involved in in recent times as a brief reminder to readers who might be planning some activity or wishing to make a referral.

Our most recent activities include...

- ♠ Fortnightly, monthly and quarterly site visits to firms under retainer arrangements of various types throughout Australia.
- ♠ Site visits around Australia to new firms to assess the firms and write **KMS Practice Health Reports™**.
- ♠ Daily e-mail and telephone advice to firms on retainers of various types. E-mail advice can

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- ♠ be handled even when we are on road trips.
- ♠ Daily perusal of various draft Business Development materials submitted by e-mail.
- ♠ Small firm Planning Retreats at "Knowsley Park", O'Connell NSW. With three guest bedrooms, open fires, pool/spa and floodlit synthetic grass tennis court, on 27 acres, we are ideally suited to provide facilitated, fully catered retreats for up to four partners...just two and a half hours from the centre of Sydney (one hour beyond Katoomba). Fully catered, with a very experienced facilitator, these Retreats are a fraction of the usual cost and proven to be highly effective, and rejuvenating!
- ♠ Various retreat sessions at resort venues.
- ♠ Delivery of papers at seminars for the Profession.
- ♠ Casual visits to firms not on retainers.
- ♠ Salary reviews, both for complete firms and on an ad hoc basis...we have access to comprehensive data for NZ and Australia and lots of personal knowledge of comparable salaries in various markets.
- ♠ We've recently prepared new or revised **KMS WorkPlans™** for hundreds of lawyers in Australia and NZ and that process is ongoing. **WorkPlans™** are a highly effective planning tool, ensuring that firm and team member are aware exactly what the potential of the individual is and what the current period goals are. For a free sample of the **KMS WorkPlan™** format in Excel and explanatory notes in Word, just e-mail us at... workplans@lawfirmprofit.com
- ♠ We've assisted in assessing valuations prepared for various purposes and assisted with the

- merging and sale and acquisition of firms.
- ♠ We've assisted with finding lawyers and interviewing them.
- ♠ Recently we again facilitated the six-monthly full-day discussion group of a national loose association of seven high-profit firms with whom KMS has had a close association.
- ♠ We have drafted dozens of Yellow Pages ads
- ♠ Assisted with the preparation of seminars for the public in various areas of the law.
- ♠ Conducted monthly feedback sessions for hundreds of lawyers...most in person...and some via typed comments on **KMS FeedBack Reports™** forwarded by e-mail.
- ♠ Prepared hundreds of monthly **KMS FeedBack Reports™** for firms throughout Australasia in addition to the **Performance at a Glance™** overview reports for firms as a whole. For a free sample of the formats just e-mail us at vitalreports@lawfirmprofit.com
- ♠ Developed a Contact Relationship Management database in FileMakerPro software for a key client to manage critical Business Development activities.
- ♠ Prepared or reviewed 2004/05 budgets for many firms.
- ♠ Prepared and implemented Business Development plans in many firms and divisions of firms.
- ♠ Coaching and mentoring of partners and employed lawyers by e-mail, phone and face to face meetings, applying experience gained over nearly thirty years since first Admission as a Barrister and Solicitor.
- ♠ Published issues of **KMS ProfitPower Tips For Lawyers** and e-mailed them to subscribers and contacts throughout the legal world.

High Quality Practice Management Reporting For Locus Users...

Every reader knows the value of high quality feedback in keeping lawyers focussed, motivated and fully productive.

It's also clear that reams of reports from a Practice Management system each month will not do the trick.

ProfitPower Monitoring™ is a system of delivering a set of very focussed reports to the partners, team members and supervisors...early every month with very little work additional to the data entries already in Locus.

The reports address all the key issues... WIP created, Fees rendered, Realisation Rates achieved on the recorded WIP, average daily time recorded in Client and Firm Time etc...ensuring that each individual and the firm knows exactly how they are travelling for the month and year to date.

These reports have been developed by lawyers and managers over the last sixteen years, are well-proven, and contain plenty of graphs to help show trends and patterns in the reports which are both highly effective and very well received by users.

For the more technically minded, PPM utilises existing Locus software Data Warehouse to populate a Microsoft Access database with the latest available Locus data, and presents it attractively using Crystal Reports.

Whether you're a Locus User or not, if you'd like us to e-mail you free pdf format samples of the **Fee-Earner FeedBack™** and **Performance at a Glance Reports™** available from ProfitPower Monitoring, just e-mail us at ppmreports@lawfirmprofit.com