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KMS ProfitPower Tips for Lawyers™

October 2005

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

Robservations

Welcome to the October 2005 edition of "KMS ProfitPower Tips For Lawyers™".

Readers will be well aware by now that we never stop pointing out areas where lawyers lose huge amounts of revenue.

There's a very simple reason for this of course, and that's because lawyers never stop doing it!

It's clearly not a generational thing... we encounter many young lawyers with the incorrect mind set.

Lawyers are always rounding fees down or offering first consultations free, or giving quick quotes on the telephone or by e-mail.

A classic is the continued tendency to offer "First Consultation Free". Smart lawyers stopped doing that years ago!

The strategic problem with trying to get more clients this way is that you simply do not want a client base full of people who want the first consultation free. You want clients who recognise that they need quality help and are prepared to pay for it. You want clients with friends, relatives and other connections that think the same way.

We've pushed for 17 years the motto, "Make yourself useful and the world will give you bread".



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Because we've met a very large number of lawyers for the first time in 2005, partly as a result of our New Zealand seminar series, we've had it reinforced yet again how important it is to get the ProfitPower™ message across, and this issue is packed with tips on this point.

Recently, as a result of a much-appreciated recommendation from a client, I had the opportunity to read Alan Weiss's book, "Value-Based Fees... How To Charge - and get - What you're Worth".

It's published by Jossey-Bass/Pfeiffer in San Francisco. www.pfeiffer.com ISBN 0-7879-5511-6

Weiss has some very powerful and useful messages in this book, and it is a recommended read for anyone who wants to earn closer to what they're worth for the remainder of their career.

I trust you enjoy this issue of "ProfitPower Tips For Lawyers™", and get good value from it.

Feature Article...

Getting A Handle On What "Productivity" Means To You ...And How To Ensure You Optimise The Productivity Of Your Resources Through Any Given Period...

"Productivity"...Noun..."capacity to produce...effectiveness of workforce".

The KMS focus has for many years been to assist firms to identify their capacity to produce using their existing "workforce resources", and to then implement proven systems to identify gaps in productivity, and to set about closing those gaps.

The issue is never about how you're going compared to the average of similar firms. It is about how you're going compared to the **optimum possible given your resources** during any given period.

In earlier newsletters I have taken readers through the issue of loss of profit potential and the KMS WorkPlan™ system for establishing reasonable goals for all individuals.

In this issue I will take you further into the specifics, and illuminate for you exactly what is involved, and what practice strategies and systems can be implemented to close productivity gaps and drop the full measure of your potential profits down to the bottom line.

Let's get an idea of what we're talking about in real terms.

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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 seventeen 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.



The average loss of productivity we see in firms we're asked to look at is well over a hundred and fifty thousand dollars per partner per year. It's often a lot more, and we have seen figures as high as half a million dollars per partner per annum...and also closed gaps that large.

If we take a conservative view, the average partner working another ten years, without getting this productivity gap fixed, will lose between \$1.5M and \$5.0M. It's well worth addressing the issues properly.

There are plenty of reasons why productivity gaps occur...

- People (including partners) not clear what they're capable of and what is expected of them...
- Wheel-spinning doing any work... especially client work...
- Over-servicing the work, and later having to write down recorded WIP
- Under-quoting...
- Writing off WIP casually...the well-known tendency to round bills down rather than up...
- Failing to properly record the activities done to achieve the work...
- Not enough Client Work in the firm...
- Enough Client Work in the firm... but poorly distributed...
- Far too many files per fee-earner so energies are dissipated across too many files and file velocity is poor...

All these issues can lead to not enough Raw WIP being recorded in the first place or an unsatisfactory level of WIP being realised...usually a combination of both.

Readers familiar with the Monthly KMS Performance at a Glance Report™ for the whole firm will recognise that we place a lot of emphasis on reporting on whether there was enough Raw WIP

created by the team members in total, given their individual WorkPlans™, and given the days in the period that each of them worked.

We then report on the overall Realisation Rate for the firm for the month and the YTD...and project ahead for a full year what any shortfall or surplus of productivity will mean per partner.

Note that we are not discussing here write-offs of Debtors which can be a big problem in some firms too.

A further small aside...I often have partners telling me, "You can't expect humans to hit optimum productivity all the time, they're not machines...and no one is perfect".

Of course they're right, but remember that there are often some team members who are running well ahead of what's expected in their carefully formulated WorkPlan™...and they often prop up the underachievers to some degree and disguise the firm result a bit.

Also worth noting that if you're \$150,000 a partner a year down on productivity the issue is not necessarily about eliminating it totally, but on going a long way towards closing the gap. Even \$80,000 extra a partner per year would be a nice result...so "perfect" is not the only goal.

What are the major causes?

In my experience the three most powerful forces at work here are **poor budgeting, low expectations, and absence of a properly designed and implemented Business Development plan.**

Firms don't have WorkPlans™ for individuals or anything remotely like them.

Budgets are often set by adding a percentage plucked out of the air to last year's results...the most common percentage used is 10%.

Firms don't have any real understanding of the numbers and types of files needed to keep their workforce resources properly busy...and as a

consequence they don't drive Business Development towards achievement of those file openings.

They tend to largely accept what the marketplace delivers to them...fine if it's good, but a disaster for productivity and financial strength if it's bad.

The bottom line... good Business Development strategies, well-implemented, and sound practice systems well-followed, will allow you to go a long way to keeping Productivity Leakage to a minimum, year in year out, whatever your resources at the time.

It's now up to the management team in your firm (even it's a team of one consisting of you) to make sure the relevant strategies and systems are in place and being fully pursued, for you to attain the extra benefits available to you in the particular circumstances of your firm.

ProfitPower™ Marketing Confidence Tips

Tip #1: How To Learn Early That Your Billings Will Be Poor...

It's concerning how many firms are still only reacting to having insufficient work when they see the billing results. This is obviously appalling planning, and totally inadequate systems.

The time to react is when after analysing the new files for a month, you realise that if they continue at that rate, they will not support the productive resources you have.

Example... If a Family Lawyer bills an average of \$5500/file and needs to bill \$41,666/mth to reach billing target, he/she needs to average file openings of .36 per business day...or 7.2 in a 20-day month. More files are needed to cover the allocated billings of support staff.

If it's not happening it follows as night follows day that target billings cannot be achieved consistently in the future

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unless fees are increased on average on each file...which may not be an option.

Increased Business Development activity needs to be swung into action urgently...as clearly what is already in place is insufficient to optimise revenues from your resources.

Set clear goals, monitor closely and react early and effectively.

Tip #2: How you can eliminate perfectly good prospects by asking too much of them too early...

Many firms follow our advice to charge for Initial Consultations in many areas of law.

We have observed some firms however being too rigid in what they insist happens next. They are not flexible enough to tailor the immediate following services to the individual client.

Example... We have seen firms sending a standard letter after an Initial consultation, with a draft Client Service Agreement, and stating that to take matters further the client will need to return the signed CSA and provide a retainer of, for example, \$2500.

Only 1 in 5 matters turns into anything further.

If you're flexible, you will get a much higher conversion rate.

For example, it may be that what is required is a few basic steps which you only need to ask \$600 for at this stage. If the matter turns out to need to be taken further later by all means again treat the client as an individual and get a further retainer at that point.

Don't scare these clients off by standardising what must be asked for unless that is totally appropriate. You've paid for Business Development to attract these prospects. Don't casually send them into the arms of a competitor.

My experience is that by being more flexible you're likely to convert 3 or 4 out of 5 paid Initial Consultations into ongoing matters.

Critical Success Factors Tips...

Tip #1: How to ensure you lose at least \$50,000 productivity per employed lawyer per year...

In reviewing the WorkPlans™ and remuneration packages for many employed lawyers in late May-early June 2005 we looked as usual at many sources of information on all factors to take into account.

One really scary salient feature from a partner's point of view is the big difference showing up in the surveys between chargeable hours goals for solicitors and the actuals achieved in the year under review.

As an example, a solicitor with 1-2 years post admission experience, working in a small Sydney CBD firm, may fall as many as 230 hours actual recorded Client Time below target.

At the average of \$260/hr this represents \$59,800 in Raw WIP which you should have been budgeting to convert at at least 85%...or over \$50,000.

Interestingly the key reason is not that the goals set were too high. In the KMS view the averages were clearly too low.

The key reasons in our view are poor time recording technique and insufficient supervision of work levels.

In specific cases we have seen the differential sitting at closer to \$200,000 per annum.

If your partner returns are less than you would like them to be, is this an area of slippage you need to investigate and perhaps fix via better KMSWorkPlans™ and better feedback and monitoring of the results displayed in the KMSFeedBack Reports™.

Tip #2: Don't leave a smooth exit until too late...

Over the years we've seen many examples of practitioners leaving planning their exit far too late and

ending up with little or nothing to sell. It's not rocket science that trying to sell your interest when you're in very poor health is not putting you in a strong position, and it's usually worse if your Estate is the vendor!

When you're in your prime and you've got the business producing good profits is the time to start the process of getting out and getting a good price for your interest.

Can you sell down progressively... to someone inside the firm or to a newcomer?

Can you sell out completely and consult to the firm for a time or simply go fishing?

Don't make the mistake of hanging on simply because the income is good. Pick the right early point to trade off getting some or all of your capital out, reducing your income, and reducing or eliminating the risk of not being able to get a proper, or any, return later.

A cautionary tip...arrangements with Consultants who stay on after selling out are a huge area for potential disappointment and unease. Have a clear job specification for any consultant and go to the same lengths to document holiday entitlements and timing and the like as you would with any senior employee.

ProfitPower™ Personal Productivity Tip...

Review your own activity capture every day relative to the time you put in... this can be done easily whether you are using direct activity entry or hard copy activity sheets.

For those of you still not recording your activity centrally as well as to each Client File... and not recording Firm Time activity...you are inevitably losing an awful lot of profit every year.

Lift Your Profits by implementing KMS WorkPlans™ ...visit www.lawfirmprofit.com

Allow us to assist you to unlock a dramatic profit potential within your practice.

ProfitPower™ Technology Tip...

Tip #1: From time to time we see technology developments that appear to offer wonderful practical benefits to law firms.

The tip this issue is to investigate Skype if you haven't already...25 Million users worldwide and growing rapidly every day.

Make free phone calls anywhere in the world...using your computer and the contact's computer as the phones...

Make unbelievably cheap calls to regular phones...anywhere in the world, using your computer as the phone...

Examples...

I spent ten minutes chatting with my son in the UK, with each of us using our computers as the phone. The sound was better than a phone, and getting hooked up was unbelievably simple. All I had to do was double click the "Dean" icon in my contacts list on Skype and his computer started ringing. No microphones, and no cost other than the existing Internet access charges each of us is already paying per month.

It works just as well on Broadband, or on a dial-up access...just add your local call cost.

Dean is now working in Russia...and made a lot of calls there from the UK. With a normal phone or mobile he paid a rate which is Pounds per minute. With Skype, calling from his computer to a regular phone in Russia, he pays around 1.07 Euro cents a minute!! Calling a Russian Skype user, the calls are free.

www.skype.com

Many readers will be aware that Google and others are now offering very similar products which revolutionise the way many of us will make phone calls in the future.

Tip #2... Junk e-mail...

Thankfully spam filters and virus protection have together dramatically reduced unwanted e-mails...but there are still useful tips...and traps...

Set up your e-mail preferences so that any "suspect" items that do get through are diverted to a Junk folder where you can see instantly that there is something in the folder and do something with it. If it really is junk... don't merely delete it. "Bounce" it back to the sender. This will appear to the sender (usually in essence the junk mailer's software program) as if an incorrect e-mail address was used, and with luck your e-mail address may be temporarily deleted.

I say temporarily because the forces of evil have their computers searching the Web 24/7 for e-mail addresses, and if your e-mail address is on your website, they have already found it again and will have sold it in a list to many organisations around the world...or be about to use it again themselves.

For some startling revelations on how many such visits are made to your website daily examine the detailed statistics from your service provider on who is visiting. The "genuine" hits on your website will be a small proportion of the total in most law firms.

Importantly, spam filters operate so as to block some genuine e-mails...so check the spam folder daily for items you want to receive, retrieve them, and clear the spam folder to make review simple the next day. We regularly find genuine business enquiries in our two levels of spam filter folders.

Is your e-mail manager looking after all this for you? In bigger firms... probably...in small firms you may well be the effective (or ineffective) e-mail manager!

ProfitPower™ Traps For The Unwary...

Trap #1... the real practical value of a Planning Retreat...

- Is your firm dangerously reliant on one partner for bringing in work?
- Are you really making enough for the effort you're putting in?
- Are you trapped in inadequate premises but can't seem to afford new ones?
- Are you employing enough capable new talent to protect your ability to get through the work and impress (keep!) the right clients?
- Are you stuck for ideas and direction, but would love to break the present cycle?

A short Planning Retreat with a really experienced facilitator may be just the same tonic and circuit-breaker for you that it has been for many other partners in the past.

For more information on KMS Planning Retreats, including those held at "Knowsley Park"...a short visual tour of the facilities, and references from your peers, just click here...

<http://lawfirmprofit.com/>

This Issue's ProfitPower™ Quick Reality Check...

Are your fee-earners getting the right type of feedback? It's a big factor in their performance and satisfaction (and hence their remuneration) AND your profit.

To see what others in the profession are getting click here...

<http://lawfirmprofit.com/> and go to Management Communication, or e-mail your Editor at feedbackreports@lawfirmprofit.com