



# KMS ProfitPower Tips for Lawyers™



EDITOR: Rob Knowsley LL.B MIMC

August 2001

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

## FEATURED Tips...

GST, Accounts & Technology

## Robservations

An issue on the minds of many partners is the high levels of remuneration expected by Employed lawyers... and the impact of those expectations on profits, given the levels of fees generated by the lawyers concerned.

I still see many examples of firms working with formulas, such as remuneration levels at 1:3 , 1:4 etc relative to fee production.

I recently had another look at the excellent "Annual Australian Legal Practice Performance Survey 2000", produced by FMRC Armidale, and it is very instructive in this area.

To me the key is lawyer productivity. Looking at the top 25% profit firms with turnover under \$25M, we see that the average fee generation of lawyers was...

- Larger CBD firms - \$266,000 pa
- Smaller CBD firms - \$193,000 pa
- Suburban firms - \$227,500 pa
- Regional City and Large Country Town - \$211,000 pa

Remember that the mix of lawyers will affect these averages...with larger CBD firms tending to have plenty of younger lawyers too.

It struck me that many smaller CBD and Suburban firms coached by KMS have lawyer production averages well above \$350,000... a factor having a big impact on partner returns, especially where partner numbers are nice and

low... the well-leveraged firms.

In discussions with many lawyers around the country it appears that firms have difficulty getting a balance between enough productive hours, and achieving for employed lawyers the lifestyle quality they require.

The bottom line is simply that employees who want to make a lot of money have to produce a lot of money for their employer... but their lifestyle need not suffer much at all.

### There is an easy answer.

Have your employed lawyers effectively work moderate weeks... around 45 hours, to protect their lifestyles, and set up their WorkPlans™ so they are using their Firm Time effectively at an average of no more than 2 hours per day (460 hours per year).

This leaves 7 hours per day on average to work on Client files, and there is room for leverage in many cases, and for fixed fees, so the following equation is conservative.

Normal 230 days @ 7 hours @ \$240 = \$386,400... at 90% Realisation of the Raw Work in Progress created = \$350,000.

I have not subscribed to the use of formulas in remuneration for fifteen years, preferring to see above market remuneration as the goal for every

valued employee.

However, if a firm was short-sighted enough to work on formulas, even a drastic one third of \$350,000... say \$120,000, would leave the firm plenty for operating expenses and profit.

A quick assessment of the better performing KMS firms in the 2000 year shows this approach being taken, with more highly remunerated lawyers on average than their peers, and excellent leverage at lawyer and para-legal leverage... more people producing fees per partner.

It does of course place a premium on arranging enough profitable work to keep the senior people busy all year, but sensible marketing programs will do that, and at any event no-one said that exceptional super-profits just fall in your lap!

Interestingly the average chargeable hours worked per year by employed lawyers in the larger CBD firms was only 1,419 or just over 6 per day...so maybe they are not the "sweatshops" many imagine them to be.

Given that there should be some leverage buried in the figures, the averages are really quite low however... with many KMS-coached firms achieving averages over 1600 "apparent" hours.... including leverage.

## Covered in This Issue

- Robservations... Remuneration V Fees Generated; Balance Time for Productivity and Lifestyle benefit
- GST Tips 2
- Technology Tips 3 & 4
- ProfitPower Web Tips 4

**Experience Powerful Profit Benefits with KMS Management Support™**

A cost effective management advice service which draws on experience acquired in 834 medium to small legal firms across all states of Australia, NZ and Singapore. If you are not already a member, join or enquire by calling FreeCall 1800-621-270

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.



## GST Tips...

**We've had GST for over a year now - it should have settled down but...**

**Tip #1** GST has introduced a need for some different thinking in how you deal with financial aspects of your practice.

If you are on an accruals basis for GST one issue worth addressing is whether you are taking full advantage of GST credits on all Invoices received by your firm, service entity etc., irrespective of whether you have paid them.

If you are stuck with paying GST on your Debtors when you haven't been paid... at least make sure you are getting all available credits on the other side of the ledger.

Many firms still appear to have large dollars in Anticipated Disbursements not posted to their Accounts... are there GST credits there going begging?

Have a chat to your Accountant about treatment of Anticipated disbursements from the point of view of both GST and Income tax.

**Tip #2** Consider carefully the benefits of isolating the GST component of your next financing deal, and paying it to your financier as a lump sum... then claiming it all back in your next Business Activity Statement... rather than borrowing the whole lot, paying interest on it, and only claiming it back each quarter during the life of the loan.

Thanks to a KMS client firm for this tip... they got a mainstream bank to organise this without fuss... please no calls and e-mails asking, "Which Bank?".

Again, if in doubt how this works, bother your Accountant. He or she of course has so little to do at present!

## Practical Tips - Accountants and your firms Accounts...

**Tip #1** This one follows on from the two GST tips in this issue... Many Accountants now have excellent web sites packed with useful information. You can cut down your Accounting bill substantially by using what they provide there to keep you out of their hair. An example worth a quick look is: [www.wearne.com.au](http://www.wearne.com.au).

**Tip #2** If you feel your Accounting fees are running out of control ask your Accountants to tender for your accounting work. They'll often even help you prepare a tender specification, so you and they know everything is in there!

Whether you actually get other tenders or not, you should be pleasantly surprised with the fees quoted. As usual, never take the lowest quote per se... there are plenty of factors to consider including any one-off work needed in a change-over!

Once you've got the quote, ask what sort of discount will be provided for you setting up a monthly transfer of one twelfth of the fees to their Bank Account... again you should be pleasantly surprised!

You have to pay sooner or later, why not seek to make it cheaper and fairly painless.

The trouble of changing the status quo also usually means that you'll get the benefit of the original quoted amount for longer than normal too!

**Tip #3** Do you really understand your firm's Accounts? Your Editor is not embarrassed to 'fess up' to struggling to understand the Accounts of all three legal practices he was a partner in!

Accounts follow conventions and Accounting rules most of us have either never been taught or very quickly forgot.

Lawyers often have a feeling that they should understand, and that asking questions they really would like answers to may expose their ignorance. My tip is just ask and keep asking until you do understand.

Then apply your mind to whether you should start having an influence on changing anything!

If you don't already get a simple **Sources and Application of Funds Statement** prepared for you in your practice each month I suggest that you should.

In our experience it helps enormously in fully understanding where the cash has come from and gone to, and the critical differences between profit and cash, Capital Expenditure and Deductible Expenses, and most importantly... Profit and Drawings!

We've seen crises of confidence in highly profitable firms when the available cash was, for good reasons, not anything like the trading profit. This document soon improved partner awareness and, frankly, morale in the partner base!

**We are happy to e-mail you an example [kmsrob@bigpond.com](mailto:kmsrob@bigpond.com)**



## Technology Tips...

**Tip #1** There are still e-mail and Internet "virgins" out there, and some "relative virgins" too... if that's not too much of a contradiction!

At page 10 of the Sydney Yellow Pages there is a good little basic explanation called, "Online"... including some good web sites for beginners like [www.kisser.net.au/learn/](http://www.kisser.net.au/learn/)

**Tip #2** What passwords etc. are required for your computer system? We recently encountered a situation in which a disgruntled and fraudulent employee "trashed" numerous files in the firm's computerised accounting and practice management system, including wages records.

It is important when staff are dismissed in circumstances where there is bad feeling that they leave the office **immediately**... if not sooner!

This can assist in minimising the opportunity for them to "bad mouth" the firm with remaining team members, but also reduces the opportunity for mischief within the firm's critical computer information system.

What has taken years to build up can take seconds to wipe out.

If you have proper backup systems they should be under the control of totally different individuals so that there is a recent backup available for the replacement, or trusted ongoing, team members to use to restore the firm's information.

Further, you need an excellent system for maintenance of your passwords. What areas of the computer system in your office are passwords required for?

How often are they changed? Who has the ability to change them, and is any outside access available to your system via the Internet or even via simple modem connection to your home or an employee's home?

It is quite normal these days for many currently highly valued employees to have access to the firm's computer system from home to carry out appropriate work from home.

You need to be in a situation where you can swiftly and effectively remove these people's access to the system, and also their ability to issue themselves with a new password at some time in the future, and then gain access to your system, including perhaps areas of the system they would never have had access to previously.

**Tip #3** Are you getting all your e-mails? Are all e-mails you are sending getting to the addressee? It's not a given fact that an e-mail sent gets to the person to whom it was addressed, for a variety of reasons... so if it's really important, make sure you do some reasonable follow up and / or set 'Read Receipts' in your e-mail browser.

Recently a mysterious problem plagued your Editor and one partner in a KMS client firm. E-mails sent to his correct e-mail address were never getting through, although copies were arriving properly on the computers of his secretary and partners.

The answer was simple, but took a long time to locate. In experimenting with the features of his e-mail program our intrepid techno-buff had set up a special folder for KMS... then promptly forgotten it.

Little did he know that it had been set up so that all future messages would be posted there without his intervention, and without any apparent advice to him.

Eventually the offending folder was located and opened, and lo and behold, there were all the "missing", unanswered messages from your Editor.

Could you have any of these folders lurking on team members computers in your practice?

**Tip #4** Computers are getting easier and easier to learn... and necessary for most people in business, even when you determinedly ensure that you don't fall into the trap of hiring IT staff and doing most of the barking yourself.

Keep your software updated, actually read the notes about new features, and try them out. Help menus really are a great help!

These days Help programs actually show you exactly where on your screen you need to go to perform the next step, and prompt you all the way.

Hire staff who can use the software to train themselves... expensive training is often a waste of time, especially if people are not going to be using software regularly... a heavy dose of intuition is more useful and less expensive.

Generally programs are very intuitive. Recently your Editor had to get a document to Melbourne in a particular format in an emergency, using software never used by him before!

Opening it up, reading a quick on-screen introduction and turning on the inbuilt Assistant all lead to a pretty trouble free successful saving of the document using the new software and the document was loaded onto the web site in .pdf format that afternoon.

*continued page 4*



*continued from P3*

Quicktip... e-mailing the document to yourself first is a simple, non-techno way of checking you've got it pretty right before sending it to the intended recipient!

**Tip #5** The new "Dark Ages"... How many old office procedures, pre-computer, continue to be slavishly followed in your firm?

**An example...** The number of firms still keeping manual file books is astonishing. All necessary input goes into the computer, usually much later, but file numbers are issued consecutively from the book and manual details written in.

To see how many files are opened in a period a quick subtraction is done!

We've also seen lawyers and staff waiting three days for a file number... with all the consequent problems!

Obviously the better firms open files live, capturing the available information once only, straight into the system following basic prompts.

The file number is available immediately, computer generated, as are screen or hard copy reports of files numbers in any selected period, matter types, new business sources, referrer details etc etc.

If you have concerns about input quality there are still immediate methods of allocating file numbers without even accessing the computer or interrupting Accounts staff. If this is an issue for you we'd be happy to elaborate via e-mail.

Firms with computerised archiving systems backed up by a manual card index still abound.

The new Dark Ages may be as recently as a few short years ago!!

## ProfitPower Web Tips...

**Tip #1** Not all cookies are bad for you! The tip about web "cookies" in our May 2000 issue generated a lot of enquiry. At the risk of boring those in the know, here's a quick run down.

A "cookie" is a piece of information set by a web server in your computer when you visit a web site.

The next time you connect to that web site (maybe even to that server or even to other sites?) the server can interact with the cookie lodged in your computer to collect information about what you are doing on the site and where you are going to from there! There are obviously some real privacy concerns here.

Businesses out there can build up a profile of how you use the Web, where you go, what you look at... and use that to market to you, sell the data to others, and who knows what else!

To get an idea of the scope of the problem, before your next Internet session, go into the Preferences area of your Browser, and set the preferences so you are asked every time a server tries to set a cookie whether you wish to accept it. In some sessions it will feel as if you're doing nothing but addressing those questions, and effecting no actual research whatsoever!

You'll see that you can delete all the cookies previously set in your computer, but they will build up again fast as you visit web sites... unless you block them all, which has ramifications.

Not all cookies are bad for you! They may actually help make the site easier to use and more relevant to you...

based on your past history of use. In some sites if you don't agree to cookies being set you may be restricted by the site as to what parts of the site you can visit, potentially limiting its value to you.

Telstra's online newsletter recently contained an article about an upgrade to the Internet Explorer Web Browser which is helpful...

It explains that the upgrade now allows you to distinguish between cookies set by the server itself to enable you personalisation options and user registration, and cookies set by third party advertisers on the sites which allow the advertisers to track your movement around the Web.

You can set your Browser so you are advised of third party cookies (and better information about who has set them) and can choose to block them, while receiving the "good" ones (merely less evil perhaps?).

Hopefully this will allow you full access to the features of the sites you are visiting, while offering some extra measure of protection of your privacy.

