



KMS ProfitPower Tips for Lawyers™



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December '99

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FEATURE ARTICLE

What proportion of the day your staff are paid for do you expect them to actually work for you?

Amazingly, it appears that there is a wide variety of responses to the question contained in the headline to this article. →P2

Robservations...

Welcome to the December '99 issue of KMS ProfitPower Tips For Lawyers™.

1999 has been another strong year for the economy. That makes nine years of unbroken growth. In the good news there is an inherent warning. If you aren't doing well now what excuses do you have?

There are some big issues coming up which will put unusual management pressures on you. Even if you are totally 'Y2K ready', don't count on all your clients and suppliers being able to avoid problems which can flow on to you.

The introduction of the GST and the big changes to the Tax system generally will cause many businesses to have cash flow problems... the NZ experience was that many were pushed right over the edge.

Cash flow management is already one of the things we see done relatively poorly in legal firms.

The messages for you?

Get aggressive on collection of Debtors now... so you are strong when any disruptive influences hit.

Don't extend credit unnecessarily... be even more commercial than you have been in the past.

Implement, and monitor carefully, a good cash flow projection so you know what to expect if the key indicators vary negatively from your models.

Here's to a very satisfying and prosperous year for you in 2000!

I trust you and your family have a very safe and enjoyable Christmas/ New Year.

Technology Tips...

TT # One...

In recent months a number of practices have had disastrous computer crashes.

The days of failure to backup have long gone, but crashes are still unbelievably disruptive, with your work affected in document production, e-mail, diaries, billing, debtor follow up etc.

These crashes have been particularly pernicious, as file servers have been

replaced and crashes have occurred again within days.

It is expensive, but with what is at stake we must be considering looking again at our methods of providing reliable ongoing mirroring so that virtually no matter what happens there is a sound system continuing to operate.

Firms should check with their computer advisers what the very best current methods are in industry generally.

TT # Two...

We have put together some notes on e-mail for lawyers which should be of some interest.

It covers some introductory technical background and some practical tips on things we've encountered.

For us to e-mail you a copy, just request one via E-mail at: kmsrob@bigpond.com

Back Issues of KMS ProfitPower Tips™...

If you would like to have copies of back issues please e-mail or fax us on... 02 6337 5000... all back issues are free to current subscribers. In future we will make these all available to you via our Web Site.

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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.



Marketing Confidence

Not all legal work creates the same level of profit for you... this is so obvious you might wonder why we even mention it!

Because lawyer marketing is still comparatively new we are still seeing a good deal of misdirected efforts.

When firms finally realise they have to do something concerted in marketing they often start with very traditional activities which risk using up substantial resources for very little return.

For instance, we often see isolated programs aimed at getting more wills, when wills can often represent less than one percent of the firm's annual turnover. Recent research we have heard of, on the highly practical 'Business Essentials' tapes, stresses that only 20% of most firms very best clients are profit generators... the other 80% actually cost the business money to look after!

Before you rip into marketing, focus on why you are doing it and what you are hoping to achieve.

It may be that you have not bothered to work out what you do that really makes you profits and that you could be doing more of.

If you have team members who are short of work, don't simply rush into trying to get them more of what they already do... decide first if what they do is profitable, and whether they could much more profitably be doing something else.

In some cases the more profitable work may render greater fees too, so you may need far fewer new files than if you are targeting other types of work.

Another tip... I recently came across a situation in which a client legal firm used a simple check list to analyse the affairs of retirees, and very quickly identified a situation in which a retired couple was paying tax (and unhappy about it). It was easily discovered that the couple's accountant had not been claiming for them depreciation on investment properties over the last 12 years where he could have been. The last 6 years' tax returns were reopened, and a cheque for a tax refund in excess of \$50,000 obtained from the tax office!

There must be many opportunities for you to develop simple check lists that you can spend 15 minutes on with each appropriate client ensuring that at least all the basic things are being done.

Promoting these check lists through the firm's general newsletters to the client base will assist the clients in thinking about the management of their own affairs and will help to position you as an expert... but to get the very best value from your client base you must have a system for guaranteeing that the checklist has been used with every suitable client who has an existing matter... unless a good reason is provided.

Train your people why it's necessary and how to do it.

FEATURE ARTICLE

What proportion of the day your staff are paid for do you expect them to actually work for you?

Amazingly, it appears that there is a wide variety of responses to the question contained in the headline to this article.

In chatting to a group of lawyers recently about what could be expected from various people, I

stressed that each person had to be looked at as an individual, and that the starting point was the amount of time per day that a solicitor, for example, could be expected to give to you on average... for their base rate of remuneration.

I explained that you then had to look at the things you would be expecting the solicitor to do for the firm, rather than for the firm's clients, and try to get an average capable of being projected on a daily basis, and then confirmed over time through accurate and full time recording.

I gave an example of a particular firm which clearly communicated to its solicitors from the outset that it expected input of a total of 45 hours per week minimum for the base remuneration, and that based on accurate time recording over a number of years the majority of the solicitors who were not heavily involved in other practice activities did not require more than an hour a day on average throughout the year, or 230 hours annually, to do the various non client (or at least non directly client) activities such as continuing legal education, marketing, precedent development etc.

When I pointed out that this meant that there were on average 8 hours a day left for the solicitors to work on client files one of the senior solicitors present, in fact a managing partner of a substantial firm, remarked, "Gee, that's a bit steep".

I reiterated my point that if the firm is paying base remuneration based on 35 hours, 40 hours, 45 hours, 50 hours, 55 hours or whatever, by agreement with the lawyers, then the amount of client time available for any one individual will be simply an exercise in deducting the Firm time required from the total time invested.

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It really isn't a matter of looking at what people may have achieved in the past so much as applying simple logic to the facts of the proposed situation for each team member.

The proof is in the pudding! Numerous firms which have perfectly happy solicitors have those solicitors working on client files in excess of 7 hours a day... from 8 hour days or 9 hour days in total. It is absolutely not necessary for an efficient operator to work a 12 hour day to achieve 7 billable... unless someone has mucked up the individual's WorkPlan™ and created unreasonable expectations of what is required!

In fact, most people tend to waste large parts of every day, and this can be tested in a fairly simple or practical way.

Ask the people involved to work a series of half days, mornings, and see the chargeable units that they create in the half day. It is almost universal that they will go close to creating in a half day the chargeable units that they would normally create in a full day!

For example, if somebody comes in at 8 and works till 1 they will normally create 45 to 55 units. If they come in and work from 7 to 1 with an hour break and then from 2 to 6, i.e. a 10 hour day, you will often find that they struggle to get above 60 or 65 units.

What happens is that the work expands to fill the day, and people tend to become quite inefficient for fairly substantial periods of the day without recognising it. Consequently they believe from a long history of this sort of operating behaviour that you need to work inordinately long days to create reasonable amounts of recorded client hours, let alone recoverable client hours.

However, because they have seldom, if ever, spent time analysing exactly

what they do with the remainder of the time for which they are being paid, and are away from their family, hobbies etc., they are not aware that there are major inefficiencies in the way they are operating.

This area of people management is incredibly important to the bottom line of a legal firm, because once you've incurred the salary and associated overhead costs for a particular individual, all revenue generated above the break even point is profit.

Improvements in revenue over and above what you are currently generating go directly to the partners (provided of course that they are collected) and this can make an enormous difference to the profitability of a firm.

In a 2 partner firm with 7 people producing \$30,000 a head improvement in revenue each (which, by the way, is incredibly easy to obtain) will translate into around \$100,000 additional profit per partner each year, or \$1m each over 10 years.

If we simply look at average charge rates of \$185/hour, or \$185/10 six minute units, 7 additional units recorded and recovered per day per person will produce \$30,000.

In many cases those 7 units can be found simply by better recording of tasks rather than a strict concern about time recording, because many tasks take less than 6 minutes of 'real' time.

Simply training busy people to record more accurately what they are doing can add dollars to the revenue they produce... and dramatically increased profits onto the bottom line.

One area in which the potential for production gets eroded is in situations where there is not enough work consistently for a particular person,

and this is either not noticed by the responsible partners, or reacted to with insufficiently decisive action.

The necessary action can be by way of work allocation from within the firm, by way of starting up a marketing program, or getting the foot on the gas peddle on an existing marketing program, holding more seminars, sending more newsletters, writing more articles, placing more advertisements, or whatever the marketing mix may be for your particular practice.

Nothing erodes revenue potential faster than key human resources unable to produce fees due to a shortage of work... even for as little as an average of an hour or so per day.

If a solicitor has, for example, an hour a day too little work for six months at a billing rate of \$225, and a realisation rate of 85%, it will cost the partnership \$22,000 in revenue, most of which is profit.

Unfortunately most practices do not get particularly excited about the absence of 10 six minute units of time, on a daily basis. They simply do not realise how much it is hurting, or do not make the time to do anything about it in a planned and concerted manner.

The bottom line is that this inadequate planning and inadequate workload monitoring is costing partners in legal firms in some cases many tens of thousands of dollars each, every single year, and is part of the reason why partners become disappointed with the returns they get for their level of investment of dollars and time, and the amount of worry which is their constant companion.

A little more attention to the detail in this area can have unbelievably pleasant results, and with good planning tools and good communication it is certainly not necessary to burn out your employees to do it.

Lift Your Profits with a KMS Practice Health Report™ by calling FreeCall 1800-621-270

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



Critical Success Factors...

In each issue we look at an area or two where you can profitably direct regular attention... leading to solid improvements to the bottom line...

This issue...

CSF # One...

Why some part-time staff can make you much more profit...

Earlier this year I was writing management comments on a KMS Fee-Earner FeedBack Report™ for a three day a week Queensland regional law firm paralegal, working in Probate/Estates... and the terrific effectiveness struck me to share some thoughts with you...

The KMS WorkPlan™ for this lady, worked out with her years earlier, provided for her to do five hours Client Time and two hours Firm Time per day.

She consistently exceeds the creation of 70 total units per day, with many of the excess units appearing on the Client side of the ledger, and creating real collectable Work in Progress... demonstrated by a long term stability in her Realisation Rate at a high level.

In 91 days worked to the end of April she'd created some \$33,000 more Work in Progress than expected, which would have been in the region of \$40,000 to \$45,000 over a full year. The Realisation Rate achieved on average over the 10 months in the Probate work was 141%, so clearly the good recording is not being 'lost'

at billing time.

Debtors are averaging just 0.83 days, and disbursements sitting at a 'massive' \$133! Billings after 10 months amounted to just over \$97,000, and for the year will be obviously well in excess of \$100,000... probably closer to \$110,000.

It occurred to me while writing some pretty complimentary comments on this lady's FeedBack Report™, that these sorts of results may well be achieved by somebody who has a decent workload for the limited number of days available, who comes into the office and focuses well, getting on with the work in hand and doing it efficiently, with no mucking around.

How much better result overall is being obtained here than if the lady concerned, or someone else, was coming to the office five days a week, often with virtually the same workload.

From my consulting experiences in firms throughout Australia in the last 12 years, and from my own experiences as a partner and an employed lawyer, I can assure all readers that there are literally thousands of lawyers in practices throughout Australia today, and clerks and paralegals, who simply do not have enough of the right things to do all year round.

This puts them in a position where it is simply impossible for them to create the revenue they should do for their salaries and in some cases probably 'demotivates' them, ensuring an even worse result is achieved.

Clearly, there are three possible answers...

Firms can continue on exactly as they

are and wonder where a substantial part of their profit is going...

They can beef up the marketing to arrange for the correct number of files to be consistently opened for the resources they have...

They can reduce the working hours of some staff markedly to ensure that the wages bill is brought back into line with the revenue that is being created.

Obviously efficiency is important at any time, but if you're going to reduce the staffing it will be important to monitor efficiency, and make sure that the work is going out the door at the velocity it should be.

Unfortunately for those of you who seem psychologically to dislike time recording... time recording is one of the few ways to be sure that your resources are being applied to the right things for the right amounts of time all year round, and thus one of the ways to get profits into the zone where they should be for your level of investment, effort and worry!

Anyone who would like to see a suitably 'sanitised' version of this particular lady's FeedBack™ Report is welcome to a copy by faxing our office on 02 6337 5000. (please note new KMS fax no.).

CSF # Two...

In our observation success is more often a case of doing the basics exceptionally well than it is a case of doing exceptional things...

KMS Cyclical Billing™ is a case in point. We are still far too often coming across firms in which billings are poor for a given period but management

Tip... Your whole billing system needs review for GST introduction... timing of when you bill and expect to be paid will critically offset your cash flow.



has no system to determine whether in fact every possible bill was done during the period.

This system simply ensures that a reason has to be provided at least once per month to management on why any given Work in Progress isn't immediately billable. If no reason is provided the system requires that a bill is done forthwith.

Management can relax about billings, knowing that if they are poor, it is not because of a failure to send bills which could have been sent. Causes have to be sought elsewhere! Often months back, in a failure to do enough work!

KMS SPECIAL REPORT...

'Effective Yellow Pages Advertising for Solicitors'

This area of advertising works particularly well for some solicitors for some types of work.

There has not until the last few years been a great deal of experience in Yellow Pages available to solicitors, and thousands of firms throughout the country advertise every year without a very scientific approach.

We are now also seeing electronic versions of Yellow Pages appearing... not just the existing Yellow Pages directories available via the Web, but separate, electronic-only advertising areas, requiring a separate investment.

KMS has done a tremendous amount of work in the area of Yellow Pages over the last seven years, and now

has a great deal of experience on what works and the sorts of results that can be expected.

We have written this KMS Special Report for you to give you a background to the effectiveness of Yellow Pages advertising. It is available from KMS at AUS\$95. Should you wish to obtain a copy please fax us on (02) 6337 5000, telephone the KMS Management Support Helpline 1800 621 270, or e-mail us at kmsrob@bigpond.com and we will organise a copy for you.

A copy will soon also be available electronically via our Web Site.

Who in your team will be on 'cruise control'...

In the office, while others are on holiday?

December and January can have people recording substantially less than their WorkPlan™ provides on the days that they 'report for work'. December is admittedly usually less marked in this regard than January.

If people come in for days in early January while many others are away they often do not get through what they would in the normal part of the year.

There is a holiday atmosphere, it's almost as if they are taking some time to get up to speed... with the first business day after Australia Day seeming to be the point where most people seem to 'get serious' again.

Many firms which recognise this phe-

nomon do everything they can to get most people to take holidays at these times, so that they're in the office and working fully effectively for the majority of the rest of the year.

A similar phenomenon will occur (especially in Sydney) during the Olympics. What is your strategy?

Has your policy been effectively communicated to all team members? ▲

Tip... If you have an incentive scheme which works on collected fees (and it should of course) remember year one for new people they'll have no opening Debtors to collect during the year and so could be very disappointed with their bonus after 12 months. Factor something in to deal with this anomaly.