



Précis Paper

How to take a Law Firm from Red to Black

Robert Knowsley and Louise Blase discuss how to improve the profitability of law firms.

Discussion Includes

- The review of and plan for profitability
- The profitability gap
- Restoring productivity & discussions with staff
- Opportunities and new areas for revenue improvement
- Reinventing and refocussing firms
- How to get out of a rut
- How law firms kill profitability
- The benefits of an experienced external management adviser

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How to take a Law Firm from Red to Black

1. In this edition of BenchTV, Robert Knowsley (Legal Practice Management Consultant) and Louise Blase) discuss how to increase the profitability of a law firm. Fundamentally, it is important to undertake a careful analysis of the "profitability gap", i.e. where the firm is falling short of its potential, and identify solutions to maximise the resources of the firm. As Mr Knowsley explains, this often comes down to employees of the firm being underutilised or underperforming, and the solution can be to find ways to increase revenue within the existing structure of the firm.

An Individual Approach: Creating a Plan for Profitability

2. Mr Knowsley explains that his approach is to steer clear of "averages" of how firms in general perform, and to focus on the individual circumstances of the specific firm. He begins by conducting a review of the firm and exploring the expenses the firm incurs; the possible profit margin; and what is causing an inadequate gap between revenues and expenses at that time.
3. In creating a plan for profitability, it is recommended that a firm focus on:
 - The potential of existing lawyers in the practice;
 - The real potential for efficiency and fees;
 - The gaps between this potential and the current situation; and
 - How to fix the gaps, in order of priority.

The aim in creating such a plan is to bring the firm to a position where it is operating at optimal productivity as soon as possible.

4. Once the firm is funded correctly, it can then consider plans for the future, including expansion.

The Profitability Gap

5. It is important to ensure that work is properly distributed so that it is carried out efficiently, and does not leave some lawyers with an insufficient workload. This not only reduces stress for the lawyers who are either over- or underperforming, but also assists in maximising profits.
6. In distributing work, ensure that staff are assigned the right work to match their skill-sets. In addition, underperformance can be caused by low expectations or low workload, and

therefore it is important to monitor workloads and to understand how much work the practice as a whole needs to function optimally.

7. Other key issues to address in restoring profitability are:
 - Improving the marketing of the firm;
 - Having work come in at the right levels; and
 - Improving productivity.
8. Improving productivity does not simply mean working longer hours in any given day. To the contrary, it is important to use each day more productively throughout an entire year, and focus on maintaining a balanced work plan over the year.

The Benefits of an External Adviser: Outsourcing Practice Management

9. Firms are often unable to see where changes need to be made to improve profitability, or are unable to agree on those changes. In these circumstances, there are benefits in retaining an external adviser who can provide objective advice.
10. An external adviser can analyse the firm's capacity, as it is currently structured, and advise on how to maximise the profits to be gained.

Why Small and Medium Firms Fail to Maximise Profits

11. Many small and medium firms do not have the right type of practice management input in the practice; too much management is done by lawyers, who are not necessarily skilled in the area and who are busy in their legal practice. This leads to insufficient time being invested into practice management.
12. In addition, Mr Knowsley advises that lawyers may not be good people managers, and may therefore not be well placed to optimise the performance of their staff.

Opportunities and New Areas for Revenue Improvement

13. Often, simple adjustments to the price point of services can make a substantial difference to overall profitability. Analysing areas for revenue improvement may involve:
 - An adjustment to the charge for a standard service;
 - Identifying areas where lawyers fail to increase fees out of a fear of losing work; and
 - Showing busy lawyers opportunities that currently exist within the practice.

14. Many clients are prepared to pay more for good service, and will even refer other clients if the service meets their expectations.
15. For some firms, what is needed is to refocus the firm's outlook, and consider ways to have new clients coming into the practice to replace old; identifying the source of the firm's clients; and having solid policies in place around payment, such as the payment of retainers.
16. New opportunities for revenue can include the use of technology to perform work across geographical boundaries to ensure practice groups are fully utilised.

How to Get Out of a Rut

17. Mr Knowsley's approach is to firstly diagnose the problem by:
 - Identifying the profitability gap;
 - Reviewing business goals;
 - Assessing if goals are attainable;
 - Setting a plan.
18. Problems arise where firms are too slow in recognising that they are off track. When firms assess financial results after the end of a month, they are examining the outcomes of effort that occurred at least 30 days prior. If a major problem exists, it is often too late to address the issue after this time has elapsed. Instead, problems with individual productivity may need to be looked at on a daily basis in order to be able to satisfactorily institute changes to workflow and productivity.

Common Issues that Kill Profitability in Law Firms

19. Common issues in law firms that cause profitability problems include:
 - Having too small a gap between revenue and expenses;
 - Not collecting revenue quickly enough, leading to cash flow issues;
 - Failing to complete work quickly enough to be able to issue a bill;
 - Failing to bill work;
 - Having insufficient work (including not realising when there is insufficient work);
 - Insufficient analysis of the sources of work;
 - Inadequate or poor marketing.

Case Study: Sole Practitioner

20. One small firm that Mr Knowsley assisted was a sole practitioner with a number of employees. The practitioner of the firm believed that the profitability of the business was not

reaching its potential. After analysing the business, Mr Knowsley concluded that the profitability gap was not a few thousand dollars, as the practitioner believed, but rather somewhere between \$1.5 million to \$2 million.

21. The primary problem was that the employees were vastly under-producing. Once a well-structured business plan was put in place that allowed the employees to be properly utilised, the problems were able to be fixed within several years.
22. It is important to watch employees' productivity on a regular basis. Some types of legal work have long turnaround periods (for example, medical negligence work that requires significant investigation). This means that if careful attention is not paid to what employees are doing on a daily basis, it can take many months to identify profitability and productivity issues.

Communicating with Employees

23. When entering into conversations about productivity, approach discussions with staff based on what is fair, sensible, reasonable and possible.
24. Discussions that talk specifically about the productivity of the business tend not to be well received. Rather, focus on the fact that employees will want to be recognised for doing their role well, and so if they are given clear guidelines of what is expected, it will be in their interests as well as the interests of the firm.
25. Fundamentally, staff should be expected to be productive for the time that they are paid.

BIOGRAPHY

Robert Knowsley, LLB MIMC

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Rob Knowsley has provided legal practice management advice and solutions to over 1,300 legal firms in Australasia for over 42 years. He provides practical advice to address fundamental problems, and to develop successful legal firms.

Louise Blase

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