

## 2008 – A Year for Practice Development

Neil Oakes, Director

**2008 sees many law firms, both small and large enjoying the fruits of a buoyant economy. Our surveys report profit growth across the profession. Anecdotally, most law firms that I encounter across the country are busy – many frantic – coping with the level of activity.**

It is difficult to be pessimistic in such a climate but one would need to be extremely naive to assume that one belonged to the first generation never subject to the vagaries of business cycles. A quick glance at this year's superannuation statement demonstrates the propensity of markets to rise and fall.

Law firms usually don't mirror the economy. More often than not they lag behind it, slowing down some time after economic slowdown and growing some time after economic escalation. The future of the Australian economy and its component parts that drive law firm growth remain uncertain. I am not predicting a slow down but I would suggest that a wise firm is a prepared firm.

About 20 years ago a very successful senior practitioner told me that the best time to focus on practice development (we didn't talk about marketing in those days for fear of the inquisition or worse) was when you were busy. Now that I have seen a couple of business cycles, I concur. It is all too easy to run, flat out into a very deep hole.

I would suggest that you make 2008 a year of practice development, getting the business basics right. Specifically, managing firm economics, managing marketing and promotion and hanging on to good people should be your focus. All worthwhile and seemingly irrefutable constructs but, I am sure that you would agree, easier said than done.

### 1. Managing Practice Economics

#### Improving engagement management and client selection

Your firm should be committed to an engagement management policy which is in accordance with client care rules, the Legal Profession Act and recognised risk management strategies. Draft a new matter instruction list for discussion including all client care concerns and knowledge management issues (who can help short cut this job?).

#### Improving recording of time and WIP management

Poor time recording usually occurs because authors feel that they can not charge for a certain activity, therefore



they do not record it. Choosing not to record any activity is, of course, a 100% discount. Record all activity then make the pricing decision.

- Introduce a centralised time recording system and record time on all files direct to the general ledger.
- All lawyers who are not capable of achieving 6 chargeable hours per day should be coached towards better performance.
- Lawyers who consistently record 4 chargeable hours per day don't have enough work to do or lack time recording skills: delegate more and train more.
- Monitor the volume of activity or inactivity on each file each month.
- If there has been inactivity on a file for more than one month, responsible authors should be

reporting to team leaders and to the client.

- Maximum file load should be set for each author.
- Where possible work in progress should be billed monthly or at minimum billing intervals, say \$2,000.
- You should conduct regular author meetings to discuss new files, to review progress re critical deadlines and to give all authors the opportunity to progress problem or mental block files. These meetings should take place fortnightly and should address one half of all authors' files, ensuring that all files are reviewed at least monthly.
- You should maintain regular file audits across the entire practice.
- Critical dates on all files should be loaded into the firm's electronic diary management system so that you can monitor failed or approaching deadlines in your authors' meetings.

### Improving WIP, Write-offs and discounting

Discounting from recorded WIP is common. The total bill comes to an amount in excess of that which would seem acceptable to the market therefore WIP is written off.

Firms should be aware of their cost of production. The average profit margin (after principals' salaries) of Australian Legal firms in 2007 was approximately 12%. Write offs or discounts of approximately 7% will reduce the firm's profit by more than 50%.

- Restructure to enable delegation of work to an appropriate author so that cost of production does not exceed market acceptable price.
- Regularly monitor write offs per lawyer, reward the best performers and coach the worst.

- Ensure that all people who are allowed to price their own files are aware of the cost of production.
- All discounting should be approved by the pricing committee or at least by a partner (assuming that they are not the worst offenders).

### Improving debtor control

Bad, doubtful or slow debtors are usually a function of engagement and communication. Lawyers and paralegal staff should be trained to talk candidly with clients about price, to keep them informed of any likely amendment to estimates and, if necessary, to telephone them prior to sending bills.

- Introduce an engagement management system. Recognise that debtors, poor payers and bad payers are produced in the initial consultation, not at the end of the matter.
- Clients should be told that lawyers will follow up on slow accounts. All clients who have failed to pay within an acceptable period of time, say 20 to 30 days, should be contacted by the responsible lawyer and asked "Do you have a problem with the way that I handled your matter - if so what was the problem - if not when can I expect payment?"
- A formal system should be drafted to manage debts when they are 20 days old, 40 to 60 days old, 90 days old and post 90 days.



- The management of debtors should be a critical part of any lawyer recognition and compensation structure.
- Lawyers need to be accountable for the financial performance of a file as well as the management of the legal affairs.

## 2. Some worthwhile marketing tips

These principles have been developed from observing lawyers who have built their practices realising that their first love is for the law and its application:

- i. Devote a minimum amount of time to client development and integrate the majority of client development activities into the day-to-day operation.
- ii. Delegate the majority (some 80%) of client development activities to a process and support staff.
- iii. Devise simple, short plans with desired outcomes clearly defined.
- iv. Continually monitor your performance and gain feedback from your clients. This is a powerful method to manage your team.
- v. Celebrate with your people their success in handling the client and conducting the matter.

Your aim is to focus your time, energies and resources on the areas of your practice that will generate the greatest return. The majority of these activities, once established in your practice require very little further input from you. Concentrate on new client management, client care and communication, past client contact programs and new client attraction.

## 3. Some worthwhile notes on people

Strategic planning is vital. It makes good business sense to plan what you

want to become and to systematically execute the plan. The vision, the goals, the strategies are all common place in management speak. The strategic plan provides a map for practice managers and managing partners. The strategic plan aligns all partners in a common direction. There is no question about the value of planning in my mind but (and it's a very big but) when it comes to the management and retention of good people at all levels, culture eats strategy for breakfast!



What makes one commit to a team and maximise performance? It's probably not the plan. All teams have the same plan: to win the game and ultimately the competition. Team commitment, longevity and performance are products of culture. The same is true for law firms. All successful firms that I encounter have a strong, homogenous culture. They value all of their people and are valued by them.

All managers should read Jim Collins' book, *Good to Great*. It is an excellent study of the importance of culture. He is the author who penned the oft quoted cliché about getting the wrong people off the bus and the right people on it, decide who sits where then determine where you are going to drive.

Partnerships that share common values and objectives, surround themselves with talented staff who

embrace those values and objectives and grow with a recruitment strategy that selects on the basis of fit rather than skill generally thrive.

It is all too common to encounter a firm that has as many cultures as it has partners. Such a collective of small practices, practising together presumably with the hope of enjoying some economies of scale (by sharing a photocopier), invariably experience poor lawyer performance, poor profits and cash flows and higher attrition than desirable.

Cultural alignment doesn't happen overnight but here are ten important (perhaps confronting) steps:

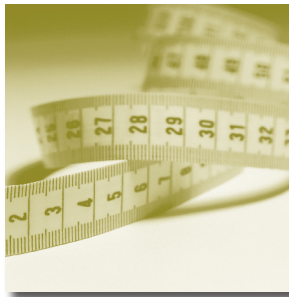
1. What do you value, what do you stand for and what do you want people to say about you? Some commentators would see answering these questions as an inclusive, firm-wide process. I disagree. These are partnership decisions.
2. Who fits the bill and who is capable, with coaching and support, of fitting the bill? Keep them, coach them, value them and reward them. Set goals with them, both short and long term and celebrate with them.
3. Who does not and will not fit? Free up their career opportunities. Do this quickly, over a short time period and be generous.
4. Don't compromise your values.
5. Set team targets, monitor team performance and reward team performance. Humans are generally more productive in a collaborative, supportive environment. Law firms have often encouraged the cult of the individual.
6. Centralize your approach to HR. In nearly all but the largest Australian firms learning, career development, performance

coaching, performance feedback and reward are a function of the relative enthusiasm levels of supervising partners. At best this creates inconsistencies, at worst the ultimate career success lottery.

7. Develop a learning curriculum and career plan for everyone. A good place to start each year is by asking yourself, "What have I done in the last 12 months to make myself more valuable to this firm?" Having asked yourself, ask others.
8. Take an interest in your people, their goals and aspirations.
9. Talk to your people all the time and foster a relationship that goes beyond the immediacy of a file.
10. Value and reward those who stay and stay in touch with those who don't. People want to travel, they want a variety of experience. Why wouldn't they? We did. If your firm has a great culture there is a good chance that they may come back, particularly if you make this easy by maintaining your relationship with them.

We may not see a significant downturn in the Australian economy. In volatile economic times it makes sense to take control of the controllable and prepare for the uncontrollable. If you implement these strategies it will go a long way to prepare your firm for whatever the uncontrollable world throws at it.





# Pricing Legal Services Workshop

Strategy and methodology for the most important aspect of business

presented by Neil Oakes

Sydney: Tuesday, 1 July – Hilton Sydney  
Brisbane: Tuesday, 8 July – Hilton Brisbane  
Melbourne: Tuesday, 15 July – Medina Grand  
Session: 9am – 5pm

The size of your firm's profit margin is determined by the strategy you adopt to price your services – and it is more than just putting up your fees.

This workshop will concentrate on helping you adopt a pricing strategy that has a beneficial impact on your position in the legal marketplace and your attractiveness to staff and clients.

You will see what successful law firms are doing in using various pricing options, and how they assess the cost of production and sell their professional fees.

Successful firms in the annual FMRC Inter-Firm Comparison survey have used various pricing strategies to improve profit and grow their client base. We will discuss these strategies at this workshop.

For details on participating in the confidential Inter-Firm Comparison visit [www.fmrc.com.au](http://www.fmrc.com.au)

## Program Content

### Strategic implications of pricing

Pricing is critical to strategic success. It positions your firm in the market, it attracts a specific client base and it determines the existence and size of your profit margin. Most law firms believe intuitively that they are "pricing to meet the market." A closer examination invariably discovers diverse pricing strategies around the corner and within the same firm. In this session we will discuss how price should be managed to produce the most favourable strategic outcome.

### Pricing options

Legal service pricing is attracting increasing attention. In this session we will address methodologies and implications of several pricing options including time, scales and "value billing."

### Assessing the cost of production

A logical extension of the pricing decision is an assessment of cost. Regardless of pricing, methodology cost plus margin remains a necessary calculation. This session will examine the component parts of cost of production and how firms can use this information with delegation and employee leverage.

### Selling professional fees

In this session we will examine marketing aspects of price. We will examine the process of selling legal fees. We will also look at writing bills that clients quickly pay.

### Neil Oakes



Neil has been working almost exclusively as a management consultant with the legal profession for more than 20 years. Each year he is involved with some 110 law firms of various sizes and speciality areas of practice.

## REGISTRATION & TAX INVOICE

Fax to: 02 9262 6749

Sydney – 1 July  Brisbane – 8 July  Melbourne – 15 July

Name \_\_\_\_\_

Firm \_\_\_\_\_

Postal Address \_\_\_\_\_

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Telephone \_\_\_\_\_

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Email \_\_\_\_\_

I enclose a cheque (made payable to FMRC Pty Ltd)

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Visa  Mastercard  Amex

Card No. \_\_\_\_\_

Name on card \_\_\_\_\_

Expiry date \_\_\_\_\_

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Signature on card \_\_\_\_\_

**YOUR INVESTMENT:** \$880 (inc GST) for the first person.  
Additional people from the same firm are \$660 (inc GST) each.

### TAX INVOICE

Once completed this form constitutes a tax invoice from  
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