

## This Month

- **Strategy & Actions**
  - **Profitability and Working Capital (some fixes/aids)**
  - **Big new contribution**
  - **Our People**

Hopefully during January, we cracked on and fulfilled the implementation of our 2020 and 2021 New Year's Resolutions. For many firms because of the end of the financial year looming now is the time we should be developing our three-year strategy to provide us with our budget and course of action/direction for 2021/22. We also have to expect that this budget will need changing on a monthly basis through perpetual forecasting.

Despite the fact that with the lockdown and potential results, many are struggling to be in control of the next three months so it is still an essential act to get us thinking, planning and taking action to survive and succeed.

Do have a read of the Resolutions for 2021 [January2021.pdf](http://January2021.pdf) ([professionalchoiceconsultancy.com](http://professionalchoiceconsultancy.com)) which gives some guidelines on the process and some fundamental actions that need to be considered and taken.

### Some Fixes/Aids for Profitability and Working Capital

Profitability and Working capital are fundamental to survival and success and they need to be born in mind as we are making those decisions our strategy, budget, perpetual forecasting. Without working capital, the business will not be able to survive and this needs clear direction and buy in from the whole team.

Not necessarily as "strategic" there are some basics that we can build into our actions and accountabilities. As a starting point if for example our firm is

	£k
Billing/Revenue	4,000
Direct Cost	2,000 – lawyers, secretaries, support, referral fees
Gross Profit	2,000 (50%)
Overhead	1,700 – premises, support staff, IT, marketing, Pii
Net Profit	300 (7.5%)

There are some things we can do that can have a surprising big effect.

**Revenue enhancement** – this involves the retention of existing clients and cross selling, the acquisition of new clients, increasing prices because of the service levels offered. A 10% increase in revenue even with the same GP adds £200k to the GP and net profit £500k – a 60% hike. Effective business development is essential but needs to be geared to the low hanging fruit for the strategy, firm's profile and the ability to engage effectively with clients and prospects.

A few simple sources of more revenue (slightly different scale – 50 fee earners but the same principles) are:

- Just getting another billable unit per day per fee earner (e.g., 50 fee earners at £200 per hour, one more six-minute unit for 230 days per year equals £230k addition to revenue, GP and net profit). Imagine 5 units (just half an hour)
- Just getting the general benchmark of 5 billable hours per day rather than 4.5 hours is worth over £1million in revenue, GP and net profit for a business with 50 fee earners)
- Converting inbound enquiries better achieving 25% of 500 enquiries per month at £500 per file is worth £750k per annum. Achieving 60% is worth £1,800k at 60% GP is £1,080k to GP and Net profit. 500 enquiries is about the number per month from reasonable marketing by a 100 person firm.

**Direct cost reduction** – this comes in two methodologies – efficiency and productivity through the more effective use of our IT systems and sorting those people that don't follow the systems and timetables, the right division of labour – so the right skills to carry out the tasks which can be broken down in just about every file, not maintaining redundant resource and fully consider outsourcing roles from secretarial to even lawyers so payment is being made for the work done and the right skills are doing it – 24x7 available.

- If this gets to a 60% GP then our £4,400 billing is generating £2,640 GP and as a consequence a net profit of £940k (21%)
- Getting those files completed quicker is also a very positive contribution to cash flow.

**Overhead cost reduction.** We need to fully review premises requirements as we have proven during lock down that remote and flexible working is feasible. This is further enhanced by enhancing telecoms and IT infrastructure and hosted with both facilitates security, flexible working, limited capital outlay with majority of costs per user per month which can be flexed up and down. Outsourcing a consideration again, telephone answering, document production, even accounting. An early start on Professional Indemnity Insurance renewals and taking a very proactive approach. BD and marketing ensuring that a product marketing plan is in place that can justify activity and expenditure for the targeted market and expected results. Cost reduction goes straight to the bottom-line enhancing net profit and again helping cashflow.

## **Change to Working Methodology that can help**

Law firms need to meet increased client demands. To do that, they need to have the necessary skills and resource availability and need to be business-savvy in delivering on their strategic objectives and their profitability and working capital targets. They therefore need flexibility, particularly in times of potential peaks and troughs.

This section was stimulated by a Q&A session that I had with [www.armstrongwatson.co.uk](http://www.armstrongwatson.co.uk) - business advisers and accountants - with quite high involvement with law firms (due to be published in January)

Outsourcing can provide the opportunity to meet varying demand in terms of timing, location and of skill-set/experience. In some cases, skills and processes may be needed 24 hours a day for 7 days a week, and in other cases only for say 2 days a month. Outsourcing means that heavy overheads can be avoided when not needed all of the time.

Such a consideration is an essential part of the strategic process. It does need buy in from management. As with other strategy considerations there has to be a very open review between the business owners to consider the skills, resources and momentum already within the firm to meet the strategic objectives and business demands – revenue, gross profit, limiting overheads, net profit and cash-flow.

There are significant benefits of paying for what you really need as you need it – shifting as many fixed overheads into direct variable costs related to activity and revenue, thus protecting profit and cash flow.

There is justification for outsourcing throughout the practice and much broader than many dream about such as:

The becoming familiar, IT and telephony infrastructure to meet the demands of 24x7, flexible and remote working, security. Plus, limited capital outlay, extended life for PCs and predictable costs per user per month.

Telephone answering – either all of it or to cover peaks and out of hours demands from clients – firms can no longer operate 9am to 5pm with an hour for lunch.

Document production – transcription and things like Excel/PowerPoint to meet client demands and expectations with faster turnaround. This can be a big time and cost saver.

Legal skills that do not exist sufficiently in the practice to enable a full service offering to clients.

Legal and support skills that are needed for peak work – this enables the firm to meet demands but also not over commit its own resources

Part time Finance Directors can help to enable all firms to have sufficient strategic and financial skills - but without the full overhead.

Accounting and bookkeeping (all or part).

Non-Executive management skills for commercial strategy and management guidance - but without the full overhead.

Business development and marketing activities – all or part of the role but sufficient to produce and enact marketing plans for maximum effect on existing client development and new business generation.

Image and website content generation.

Inbound enquiry management and resourcing - meeting the need of clients and prospects when they want it and by willing and skilled participants, leaving fee earners to earn fees.

Website chat boxes – this is a newer craze and is fast growing.

## **Our People**

The last year has been a very difficult time for many with enhanced work and mental pressures. Honest and motivational communication is a significant requirement. As with the recession 12 years ago many star lawyers and support staff will be observing management approach and will be making career decisions that can be applied once there is a recovery.

As we do our business status stocktake and develop our strategy, we should also be considering our staff and the working needs of the business and the contribution they can make.

There will be much further consideration of flexible working, diversity, equality, mental health and motivation.

Our strategy and planned actions need to be shared once in place and all staff need amended job descriptions with accountabilities, tasks and targets. It also means that we have to review the

development needs of the individuals and put plans in place to do their development for the new needs. It may also affect supervision for some of the activities as many firms are getting teams to improve use of IT, generate the right MI, handle business development and the handling of enquiries. Some may well need support where working methodologies need to be adjusted and an extra billable hour a day generated.

This whole exercise will also be a great assistance in defining the job and above all candidate profiles for new recruits having considered interim, peak or trough or full time outsourcing.

Feel free to look at historic article here <http://www.professionalchoiceconsultancy.com/articles.php>

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