

## **This Month**

- **Business Management Challenges**
- **Alternative Funding**
- **Would a NED be useful**

## **Business Management Challenges**

I was asked by a lead journalist during February what I considered to be the major business and commercial management challenges for law firms at this moment.

My response was as follows:

### **Working Capital Management**

The world has changed significantly compared to 12 years ago when a bank would just increase the overdraft. That sort of thing is no longer available and of anything it can be evidenced that most of the banks have recognised their over exposure to the legal sector and are tightening up their arrangements and indeed removing them altogether. Communication between the firm and the key people within the banks with the appropriate levels of authority is essential and there is a big responsibility for the management of the firm. Similar to direct interface with Pii insurers and brokers. Yes there are alternative routes available for borrowing money – more on that later but the starting point has to be within the firm and it's day to day management

- When taking on a new client there needs to be clarity around costs for work done and the payment methodology to reflect the firms activity on a file. Lack of this leads to no interim payments, debts and aged debts where the firm ends up funding the clients
- The realistic management of WIP. Firstly we cannot hide the reality and time recording has to be done and effectively by everybody. We do need to know what the life of a file has cost us to assist in future pricing as well as comparing the efficiency of fee earners. (20 minutes to review a Will or 90 minutes)
- Every month fee earners need to review the WIP by matter and advise management of what will be billed and when. A great aid to billing and cash flow forecasting.
- Without the ability to perpetually review WIP and consequently the lack of realistic forecasting exposes the firm to severe risk. 4 to 6 months of billing sitting in WIP needs serious review.
- We also pay tax on it.

### **Business Development and Marketing**

A responsibility for everyone in the firm whether it be down to client retention, updates (such as Wills and adding LPAs and Probate), cross selling bringing in other work-types from within the firm and the new clients for the firm.

- Activity for client development and new business needs segmenting because the requirements are different
- Every department within the firm should have its own Product Marketing Plan – products and services, benefits to clients, targeted potential clients, route to those clients.

- The Product Marketing Plan should be very clear before investment in marketing itself and whether it be social media, web site, events, brochures, e-mails etc that plan has to be recognised and the right route chosen for the targeted market. We know that dealing with a baby boomer in a £600k property is different to a Z generation buying a first house with a partner who wants a pre-nup.
- Getting the marketing right is step 1 but then dealing efficiently and professionally with inbound enquiries is also essential for every department. There is a big difference between 25% conversion and 70% conversion
- The firms image is also important these days for staff and potential clients. Being founded in 1920 is not a benefit to clients but the communication, empathy, efficiency is along with social awareness and commitment to society internally and externally.

### **Gross Profit Achievement**

This is a fundamental measure and it the difference between the billing a department is achieving and the direct costs of doing it.

Often ignored but fundamental in terms of efficiency and the use of available technology, processes and service levels.

There are many firms that are failing with this fundamental – any improvement through price increases or cost reduction goes straight through to the bottom line.

A £5million turnover firm that is on 50% generates £2.5m GP – if that is upped to 60% the GP becomes £3.0m adding £.5m to the net profit.

This measure is often not high on the considerations after mergers and acquisition but it should be.

### **Strategy and Succession Planning**

Too often ignored. We need at least a three year strategy for the firm and every department every year. Year 1 the budget but even that needs to become a perpetual forecast after month 1 to realistically reflect what is happening and what we are going to do about it.

A couple of months ago I wrote about ownership succession within firms <http://www.professionalchoiceconsultancy.com/articles/December2019.pdf> . The future has not been considered in many cases and is not reflected in the management style of the firm and then the baby boomer owners want to retire and are then surprised that the hard working younger lawyers do not want to buy the business.

With the right sort of strategy in place we know when we have to enhance the management structure, replace retiring partners – eg effective handover of commercial clients, volume files etc. We know which of our work-types need more people, we can sensibly consider outsourcing.

With this sort of requirement plan we can enhance the output from appraisals and create personal training and development for key existing staff – motivational and/or we can identify where we need to go to market in a planned way and find the right people to match the person profile of our needs.

### **Management Style and Inclusion**

Things have to change and we have to be much clearer in how we approach the different people working in the firm. The recognition of the generation and variable expectations <http://www.professionalchoiceconsultancy.com/articles/January2020.pdf> .

We need clear objectives and task accountability, we need to ensure that this information is available and continuously reviewed – not just a shouting match or annual appraisal.

If people feel they are going to miss their objectives it is much better as soon as they recognise this they can go to management to agree an action or change of priorities. Not just a week after the end of the month discover that the billing from Team A was £10k less than expectation

## **Alternative Funding**

Earlier I mentioned about the difficulties surrounding additional funding from banks because of their exposure in the sector. The relationship can be improved with enhanced communication with the right people in the bank or identifying an alternative. We certainly cannot take for granted the automatic extension of lending.

Manchester Law Society's Advantage group has been enhanced further by the acquisition of a new member <http://www.vfslegal.com/>

VFS Legal has been providing financial solutions to UK Law firms for almost a decade. During which time they have provided over £150 million across more than 25,000 cases.

Our Manchester contact Rick Gregory [Rick@vfslegal.com](mailto:Rick@vfslegal.com) confirms *"There is in some areas a reluctance to lend into the legal sector. Firms have seen many banks slash overdrafts and in some cases remove them completely. VFS Legal Funding provides a range of financial products to law firms, facilitating cost advances and disbursement funding options. This allows the firm to draw down on WIP and disbursements already paid."*

*"Secondary lenders such as VFS sit alongside the Banks existing facility and were not originally meant to replace a firms banking relationship. We are however seeing more and more applications from medium-size firms who wish to expand their business but restricted by the bank's unwillingness to lend."*

*"By releasing the cash that is tied up in a case, It gives the law firm the financial muscle to move their business forward whilst removing the need to compromise in settlement negotiations. Mainstream Banks recognise the added value and security this provides mutual clients as it eases the pressure on their cash flow and provides more financial certainty to their law firm."*

Every law firm and its members/directors is different but there is an additional methodology that can be reviewed here and possibly offset a financial disaster whilst the "Management Challenges" get sorted.

## **NED as part of you Management Structure**

A non – executive director - I have done it and really enjoyed it and over the last few months have promoted the consideration of outsourced accounting for law firms and indeed part time Finance Directors to add to the skill base and winning the Management Challenges

During February I took the opportunity to discuss this with [Viv.williams@symphonylegal.com](mailto:Viv.williams@symphonylegal.com) a very well-known consultant plus in the sector.

He has confirmed that there are an increasing number of firms, whatever their size or structure, are utilising the skills of a non-exec as part of their management. With potential flotations it's almost a necessity

Viv says *"With over 68% of Law firms now limited liability companies the role of the NED can be an invaluable asset. The remaining 32% can still take advantage of a virtual NED to guide them through the change management process that all firms need"*

We obviously need the right skills but with the banks changing their approach we need an alternative method of funding the right NED will understand how this works and guide the business along the right path

### **What exactly is a non- executive Director?**

They are not employees but consultants, sit in Board meetings but not in the executive team – it is the same in the case of a law firm that is not incorporated the non-exec role is for someone who sits in partner meetings and constructively challenges the strategy, future direction and the decisions of the partners.

### **The Benefits**

With the right experience, business skills are available making individual departments become more profitable, constantly reviewing working processes and finding new and unusual ways of running a law firm as a business.

A NED is likely to improve the law firm's profitability and help avoid many of the pitfalls that partners will find themselves.

It is like other outsourcing often a daily charge but with a clear potential return on investment and the added dimensions needed in many firms.

Viv says *"Many of the banks encourage a non-exec presence within law firm management recognising the value of a non-lawyer helping with the vision, strategy and someone with business acumen reviewing the management of a law firm with non-lawyer eyes."*

It is another way of ensuring that the Management Challenges are being met and many leaders in firms have not had the commercial management training or practice.

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