

Critical - Delusional

Can I suggest ever so strongly that you make reference to the column from August 2015 where I wrote about the working capital issues facing many firms and included a whole list of actions that can be taken simply but could make all the difference. (You can get the piece on the MLS website or I will happily e-mail it to you).

Management, accountability and targets are key for fee earners and heads of departments.

Time certainly flies but even in the last few weeks I have seen evidence that even with the blessing of external accountants (who should but obviously don't always know better) some firms are still making monthly WIP adjustments that flatter revenue figures, enhance gross profit and consequently net profit when there is no substance. When the foundations are built on sand.

A real working capital error if it cannot be turned into cash.

With available technology – your PMS system or reporting tools there is no reason why a fee earner cannot, every month, review all matters and declare what is the recoverable WIP going to be and very importantly when. Department heads then have a realistic assessment of performance and the forecasted future and the finance team are in a much better position to forecast cash flow.

It's not just the running out of money scenario but there is also a major impact on discretionary spend looking forward.

I learned all of this within legal 20 years ago when I congratulated the FD of a London firm on their achievement of £12m turnover. Shaking his head he said it would have been so much better if we hadn't written off £1.5m of non recoverable WIP at the year end. In those days the banks of course would just up the overdraft as you were lawyers.

As I quoted then "Imagine being a firm with £2.5million of lock up. Outstanding bills of £500k and a bank putting you under pressure on a £200k overdraft. Crazy stuff as it can so easily be fixed with realism."

A Critical Measure

In passing we have spoken about what I consider to be a key performance measure. Again within law firms I first became aware of it when in a partners meeting one stalwart said compared to the others his billing performance was by far and away the best and so his opinion should count for more. It was only later when I checked things out that I discovered that he had a team of four working directly for him – secretary and three others so that when we took account of his drawings and the direct cost of the others his contribution to the practice was effectively zero.

Gross Profit is a critical performance measure for the firm and comparing performance by heads of department. Still unfortunately not uniformly applied but so important. It is missing from some PMS systems even now but it is critical that this is applied.

GP is a simple calculation that takes the billing by department and deducts the **direct costs** of doing the work, partner drawings, costs of employment of departmental staff (partners, lawyers, para-legals, secretaries and referral fees if there are any). There is no point in trying to allocate other overheads or discretionary spend as that is what they are as well as being a diversion.

There are still firms that do not take into account partners drawings in real performance stats (again sometimes aided and abetted by accountants) – again this is delusional and may have firms thinking they are making net profit when they aren't.

Just as a benchmark I wouldn't expect to see a commercial, private client or family team not achieving say 65 – 70% gross profit. Some volume work may be as low as say 50% but if systems are being used correctly certainly no less

Just look at the potential dynamics and the benefits accrued by focusing on upping Gross Profit by just a little.

	Base £k	10% more revenue Price increase/billable hours	10% less direct cost Division of labour/processes/IT
Revenue	4,000	4,400	4,400
Direct Cost	(2,000)	(2,000)	(1,800)
Gross Profit	2,000 (50%)	2,400 (55%)	2,600 (60%)
Overhead	1,700	1,700	(1,700)
Net Profit	300 (7.5%)	700 (16%)	900 (21%)

It is a key measure in the nasty commercial world too – if by focus a reseller can up GP from say 18% to 25% - better buying and realistic pricing it adds £350k to the bottom line. I have seen it done.

Major Contributors to the Business Challenge

Back in October I congratulated MLS Advantage members www.moneyppenny.com (telephone answering and PA service) and www.documentdirect.co.uk (Digital dictation transcription and document creation and editing) not only for being part of our MLS team but also with national recognition of being endorsed by The Law Society of England and Wales. I am pretty sure we were first.

As I have been writing this months column I have been thinking about both of them and the very similar benefits they bring to firms with their services. Both incredibly relevant to law firm clients to offer exceptional and timely service to their own clients but also as a major contributor to flexibility and profitability to the law firm

- 24 x 7 service
- Management of peaks and troughs of workload
- Skilled and highly motivated staff, therefore highest quality - readily available to cover peaks, holidays, sickness, vacancies or the whole thing
- More flexibility around in house resourcing
- Enhanced client experience, compliance and security

Hopefully you can see the contribution that these outsourced services can bring to the gross and net profits of your firm along with enhanced client experience and retention.

And another thing.. Speed and ease of enquiry conversion.. Electronic signatures

In this column for many months we have demonstrated the amazing impact on the bottom line the conversion of 65% of our 500 enquiries a month instead of 20%. It is always important to have the culture and processes in place.

On top of that is the need to actually ask for the order and now of course there is more that can be done to ease and speed up the process – electronic verification.

Most of us will have heard of Docusign from Adobe but there is a solution now much closer to home from MLS Advantage member www.documentdirect.co.uk

Not only can costs be saved – staff – production and follow up), printing, postage but also the speed and ease is likely to improve the quotation conversion rate

I am assured that this technology provides legal verification under the Electronic Communications Act 2000 and Electronic Signatures Regulations 2002 PLUS you can get a free trial

Diary Date - MLS Management Conference - 27th September 2016

The agenda and preparation is going well.

We shall be looking at Strategy, management, people, business development, working capital management in small, medium and large firms and we will be able to see what can be learned from one another

IN the North West as demonstrated with the MLS Lawyer Awards we have some very successful firms who are prepared to share their experiences for the good of all supplemented by some industry experts

The sessions on People management and development as well as real expertise in business development will make it a great day

Please make contact with the MLS office to book your place.

Customer and Prospect Satisfaction has become a Game Changer.

According to the latest Gartner Report, by 2020, 85% of customers will manage their relationship with firms without interacting with a person. The Harris Poll indicates that currently, 64% would prefer texting over voice as their preferred customer service channel.

Again back to the enhancement of enquiry conversion but it is much more than that. We discussed the outsourced client experience survey with www.legallybetter.co.uk in May

It is essential that you know how satisfied your customers are with their 'buying' experience from you because it drastically affects future success. You also have to be proactive to create the right experience.

In the modern today, your clients carry with them technologies like smart-phones that enable them to communicate with your law firm in seconds whilst connecting with dozens of their of close contacts and family simultaneously. Due to this, client satisfaction in this digital age can potentially make or break your bottom line. Justified or not.

I can remember years ago – a positive experience would be passed to one other and a negative to 28 resulting in c600 people picking up on the negative.

Recent studies say that if you do deliver a positive customer experience, 69% of your clients will recommend your firm to others. This sounds great, but on the flip side 79% of clients will share a negative experience! A final interesting fact, it takes 12 positive experiences to make-up for one unresolved negative experience!

You need to ensure you are communicating in the way your clients wish to engage. Continual monitoring and responding to warnings is essential.

The world has moved on so part of your strategy has to include the evaluation of how your customer and prospective clients want/need to be communicated with - phone calls, email, web chat, text , video, social mediaself service even.

I approached MLS Advantage partner Matrix247's www.matrix247.com CEO, Stephen Pritchard and he has strong thoughts on this matter, *"You need to be working with a communication company who bring a pro-active value - add as their part of the relationship? Have they experience in helping you map your customer journey, both inbound and outbound and understands which types of communication are statistically most appropriate? Your customers expect a flexible experience with digital media. You need to ensure that systems, process, workflows and culture are defined to ensure the optimum connections for the client and his issues. Todays technology can certainly assisting enhanced client loyalty and diminished client churn. Who want the negatives? Very quickly viral."*

What is the cost of not knowing more about this technology?

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