RENOVA
management group

Ten Tips to Improve Profit in 90 Days or Less

Eric G. Dewey, MBA, CMD, CFMP

Principal, Renova Management Group

September 2011

In brief:

Achieving profitable growth in a weak economy requires astute management and gutsy decision making. The top ten tips below are proven effective ways that professional service firms can boost profits at a time when revenues are becoming increasingly hard to come by and expenses have already been cut to the bone. Still, any journey worth taking starts with the first few steps. So, here they are.

Renewing profit and growth:

What can you *realistically* do to improve profit in your firm?

Ahhhh. '*Realistically'*. That's the key, isn't it? Realism is in the eyes of the beholder. It's easy to throw out random tactics to improve profit, quite another to actually manage improved profit. But one thing is for sure. Managing profit takes leadership. It requires deep analysis, tough love and tremendous communications skills. Brace yourself for some tough decisions. Improving profits typically requires slaying some sacred cows and holding partners accountable. Not an easy thing to do. But, nothing worthwhile is ever easy. And it has to be done.

The following is a list of 10 ways to improve profits in your professional services firm. Most of these suggestions can be implemented within 30 to 90 days- some may take longer and others are, well, simply impossible for some firms considering their cultures and histories. But, if you are serious about increasing profits, you owe it to yourself to consider each one of these ideas carefully.

1. Manage the 'profit drag' producers:

Not every partner contributes equally to the productivity of the firm. That will never change. But paying attention to and dealing with the lowest performers will lead, one way or the other, to higher profit. Also, those that over contribute need to be given the resources and incentives to exploit their ability to contribute. Those that under contribute need to be evaluated differently (they may offer the firm something that does not show up in billing reports) or shown them how to improve their productivity and contributions to the firm.

The first step is to identify where your opportunities are for improvement. To do that, take the compound average for the past three years of origination and billed hours (or worked hours) and record them in an excel spreadsheet (use a three year average to smooth out the effect of a bump or trough from any one single year). Those that fall below a minimum threshold in both are the targets for turnaround or release- depending on the time frame for improving profitability.

Dealing with under performers is a tricky business. Humanity and compassion goes a long way in these situations- as much for the subject attorney as for all those who are inevitably looking on. Look at each on an individual basis and consult with the attorney as to the reasons for the low billing hours and low origination. Consider performing client satisfaction surveys on the clients with whom the attorney deals most often to see if there are problems and to assess the depth of the ties the client has to the attorney. Provide coaching for these attorneys for a set period of time. Typically a coaching program will take 6-12 months, even up to 18 months, to produce significant results. But after that time, if they still don't produce results or achieve higher production standards, they may need to go.

2. Manage the 'profit drag' clients:

One-off matters in commodity type practices with low revenues, unless they are used to train associates, are unprofitable. Set the bar high if you take them on or don't take them on. Clients who make unreasonable demands and are slow to pay are typically not worth the relationship. Consider gracefully bowing out of these 'double jeopardy' relationships.

If you list clients in order of revenues/hours you will get a graph that looks a lot like a very long tail. Client concentration in most firms is highly dispersed. That's because most firms have little tolerance for declining small, one-off matters. The fear is that these are the clients which provide the bread and butter work for many attorneys, are the training ground for associates and potentially could grow into large clients, to name just a few of the reasons why there is resistance to culling the herd of clients. What's more, some practices are built on a high volume of low revenue work from a lot of different clients.

But, increasing client concentration has tremendous long term benefits to the firm that easily override the short run value of serving lots of clients in little matters. Among the more notable benefits of client concentration are improved industry knowledge and focus, reduced costs to serve, improved process efficiency, lower liability risks, lower overhead and improved client satisfaction.

3. Manage the 'profit drag' infrastructure:

Some offices were opened for specific reasons or clients but, over time, have lost their focus and purpose. Often, they sit in small legal markets and tend to be sustained for the convenience of a small group of attorneys. But the cost of keeping these offices is often way above the benefits the firm receives from keeping them in operation. Numerous options are available to lower the cost, keep the attorneys and continue community investment. It's time to look hard at these options.

In addition, some firms continue to have too many secretarial and support people. Many firms operate on 3 attorneys to every secretary and some even use as few as one secretary for every ten attorneys. With younger generations adopting the efficiencies of technology and the Internet, there's decreasing justification for having large groups of support personnel in-house. If there's a growing population of attorneys who work from their home in a freelance-type business environment, certainly there are ways to reduce the overhead and support for attorneys in a firm.

4. Manage the 'profit drag' of receivables:

Loss of profits occur at numerous stages in the client relationship including the initial bid (discounts from standard rates), before the bill is submitted (write downs), slow payment of invoices, and uncollected bills (write offs). Putting in place tactics to carefully manage each aspect of the pecuniary chain can raise profits substantially and change behaviors in the firm to ensure long term effective cash flow management.

The two main areas that must be managed are discounting of rates or bills and the velocity of collections. Improving your ability to collect full rack rate on your work (or not discount) is a function of: 1. The ability of attorneys to quantify the value of their services, 2. The ability of attorneys to resist offering discounts in the first place by clarifying value or by finding alternative ways to add value and 3. The firm's commitment to rescinding discounts when clients fail to pay in a timely manner of otherwise fail to deliver on their end of the bargain.

While some write downs are unavoidable what is not avoidable is the requirement to track and understand the cause of write downs. Every write down should be recorded and a clear explanation recorded for why the bill is being reduced. Many of the reasons are legitimate but without monitoring, the reasons cannot be managed and the gap of write downs closed.

Next, make the write downs transparent. Summarize the write downs and provide an evaluation of how the write down could have been avoided or minimized and share these among the partnership. This not only puts pressure on those to curb their liberal write downs of work but trains others in the methods for reducing them in the first place.

The second area is the velocity of collections on billed work. The faster invoices are sent out, the faster they can be collected so managing a faster recording of time and production of bills is critical. Bills should have disincentives for slow payments including interest rates on outstanding balances, collection fees and interruption of current work, where possible, when bills are not received in a reasonable period.

And lastly, non-attorneys, trained in collections, should be dedicated to collect outstanding balances. Not only are attorneys not typically the best at collecting bills from their clients, it can also damage client relationships and should be separated as an administrative function in the firm.

5. Reward profit behaviors:

Change compensation plans to incent the drivers of profitability. Most compensation plans reward new client acquisition over client expansion and satisfaction. Origination credits for clients vs. new matters, especially those that don't sunset, can be as much of a disincentive as incentive. Compensation systems should have thoughtful incentives to encourage sharing of clients, deepening relationships and re-engaging past clients.

Often, the activities necessary to run an effective organization are not integrated and formally rewarded at compensation review time. Running a firm well is hard work and takes time, discipline and the development of unique skills. Not everyone can do it so it deserves to be compensated at the level in which a new client to the firm is compensated.

Tap the knowledge and ideas of the front lines. Offer rewards and incentives as well as the channels for staff to contribute ideas and strategies to improving profits in the firm. Staff are often an underutilized resource in the firm. Many are active in the community, have friends and family in decision maker roles and aspire to provide meaningful contributions to their employers. They need only be asked to contribute and rewarded for the significant contributions they make.

6. Adopt a 20/20 focus:

Develop a plan and visit every client in person who is in the top 20% of revenue producers or who you do less than 20% of their estimated legal spend. You will be surprised at how many attorneys will come back with new files, among other benefits, if done correctly. Visits should be off the clock and scheduled well enough in advance that the attorney can prepare well for the meeting. Questions should be developed to fill in the blanks of information that cannot be retrieved from third party or public sources or are not known by the attorneys who work with the client. Make sure the client meetings are not overt sales calls but rather investment time to understand the business, learn the challenges and identify core client needs.

7. Make the best use of time:

Attorneys can get bogged down in projects and firm duties which have little impact on profits. Not only is the limited inventory of an attorney's time consumed but often the attorney is ill-equipped to handle the project. Furthermore, the cost of the attorney's time is much higher than cost of time of better equipped, non-attorneys or vendors. Law firm leaders are well advised to outsource non-touch point/non-value add marketing initiatives. Anytime you can reduce the hours investment of attorneys by off-loading non-value added marketing and business development tasks that don't put attorneys in one-to-one contact with prospects and clients, it is a good thing.

Second, during difficult economic periods when work is scarce, attorneys often spend their time on charitable and community activities or pro bono projects. These rarely produce work or put attorneys together with law firm selection decision makers. Certainly if they do, it is time well spent. But if not, that time is best spent meeting with prospect and clients and exploring ways to solve their most challenging problems.

8. Ask early for referrals:

Every attorney knows to ask for referrals. Of course, few of them actually do. And when they do, they usually wait until the conclusion of the matter or case and then, only when the results were achieved. But experts will tell you the best time to ask for the referral is early in the relationship, during the honey moon phase of the relationship. Attorneys will be more successful when they ask for referrals earlier primarily because the timing is much better. On the one hand, earlier means there is less chance that disappointments could color the client's enthusiasm to refer your services and second, if you've negotiated special fees or discounts, clients who pushed hard for the price concessions are likely to see a referral as an easy, low risk way to rebalance the scale.

9. Use flat fees to protect margins:

Adopt alternative fee and project-based fee arrangements in regular and recurring practice areas where the work is not strategically important to the client and numerous other law firms provide the work. Done effectively, this can protect and, in some cases, grow profit margins on this work. There is a tremendous depth of literature on the subject so I won't go into it in detail here. Suffice it to say that firms who address the issues clients face in their legal budgets are viewed more as partners to the business than vendors of the business.

The vast majority of clients seek AFA to improve some form of predictability in handling the work, both in the process and the outcome. Firms which resist project based fees on regular and routine work are openly conceding their lack of experience in doing that work. The trick, and the value in it, is that project fees force you to perform the work as efficiently as possible. With a few basics set up and realistic expectations, you can estimate the cost, manage the process and deliver superior results while getting paid more than you would were you to handle the same matter using an hourly rate model.

10. Use an RFP process:

Astute expense control management includes using the market to ensure both the best price and the best services. Firms can use RFP or bidding processes to lower costs in printing, copying, e-Discovery, litigation support services and other large cost expenditures. You can also reinvigorate the service focus during this time and use the platform of several bidding vendors to secure non-traditional savings like off site storage of office supplies and marketing materials, JIT delivery of materials, support websites and other tools of efficiency. The RFP process allows you to clarify expectations, solicit creative delivery of services and re-engage with vendors who might not be communicating to you the most current developments in their industry.

Conclusion:

While many of these tips may be difficult to implement, they will generate significant improvements in profits. However, conducting the analysis and guiding the implementation can be fraught with unintended consequences and numerous complications. Firms are well advised to use the services of unbiased and knowledgeable consultants to assist in this process. Renova Management welcomes the opportunity to work with you to assess the opportunities in growing your practice and develop a plan of action that will improve your profit and growth. We look forward to hearing from you and stand ready to answer any questions you have regarding the enclosed materials.

Eric Dewey, MBA, CMFP, CMD is Principal of Renova Management Group, a consulting group with offices in Cincinnati, OH and Louisville, KY serving midsize law firms in marketing, client development, strategy, management, compensation and combinations. Dewey has over 25 year of marketing and business development experience in four industries including several years at two AmLaw 200 law firms. He holds an MBA and two marketing certifications and writes the blog, Lawyer Up! He can be reached at eric@renovamanagementgroup.com.