

## **This Month**

- **Significant changes happening to support law firm achievements**
  - **Another value add outsource or part time skills input**
  - **Key financial management – strategy to delivery**
  - **Alternative routes to financial management**
  - **Few key sums to make it happen**

## **The Challenge**

My, how the world has changed or should have changed for law firms in the last 10 years since the recession. Remember the days when overdraft increases were available because of being a lawyer. When there was less competition and less pricing pressure. Prior to multiple mergers and multiple breakaways. When clients were less demanding.

Not all firm owners accept it but the law firm is now definitely a business and the critical business issues need addressing

- Pricing and efficiency (plus billable hours recorded and recoverable) needed to stimulate benchmark gross profit which has to stay significantly greater than overheads – fixed and discretionary
- Working Capital management – good contracts, realistic WIP, credit control programme and realistic cash flow forecasting
- Overhead management – the fixed items, the discretionary ones like marketing and additional support headcount – clear ROI understanding and justification
- Relationship management with the bank (you may need one) and Pii providers and brokers (to keep the potentially third biggest spend for the firm down)
- Other key factors – like enquiry generation and conversion, client development and retention

## **Step 1**

Prior to having to deal with these issues there is a fundamental requirement for

- The annual production of a three year strategy encompassing
  - Strengths, likes and dislikes of key personnel and succession planning and people development from within and without.
  - Geographical and work-type development
  - Generic or acquisitive growth
  - Likely phased revenue
  - Likely phased Gross Profit (revenue less direct cost of achievement) enhancements – value and %
  - Overhead needs – fixed and discretionary
  - Cash requirements for investments, general working capital needs
  - ROI from investments
  - Succession and the right people development
- The annual creation of a budget – encompassing all of the key items above
- When the year starts – that budget is only worth a month apart from being a reference point - monthly perpetual forecasting and revision of the years potential on a monthly basis with

regularly changed KPIs to drive behaviour and strong monthly reports that meet the needs of the business

- Monthly legal Head of Department Reviews on all key data

This all requires confidence and availability in the numbers being reviewed, ownership by management of the tasks in hand. Inertia is no longer an option.

The finance function of the firm has to be strong and resourcing this is not going to be easy for many. In some firms the status of this function needs enhancing by the owners.

Key KPIs by sector/department and key management information. Too often lengthy and general reports from the Practice Management System is seen as enough but in reality is often not specific or focussed enough.

In many cases this needs a fresh look from potentially a third party rather than the in house team or at least as an interim team development solution

### **Potential Added Value and Solutions**

Back in May I stirred a few nests with suggesting that for some outsourcing of the accounts function is a potential. I referred to current suppliers of such services. Quill, The Law Factory and The Cashroom. The minimum provision of monthly accounts and book keeping is one thing and there appears to be a variable level of offer and acceptance of further advice and warnings from these key players and from independent firms of accountants.

Even when a firm is doing its own book keeping and accounts and have a relationship with a firm of accountants we should be also expecting more proactive added value support from our accountants rather than just audits. We do need to be aware of potential conflict with SRA audits – achievable.

I refer to a situation once at a partners meeting when the FD said they would be out of cash in three months – even with their third party accountants were in the room no one said anything and it required a guest (me) to start the positive action.

Things have moved on and my research is uncovering some very successful offerings in the area of Outsourcing but also part time Finance Directors for firms.

A couple of accountancy firms well known to the sector and with a number of clients offer such facilities to good effect <https://www.armstrongwatson.co.uk/> and <https://www.menzies.co.uk/> . Key sector contacts Andy Poole - [Andy.Poole@armstrongwatson.co.uk](mailto:Andy.Poole@armstrongwatson.co.uk) and Peter Noyce - [PNoyce@menzies.co.uk](mailto:PNoyce@menzies.co.uk)

Both offer part time FDs and Outsourced accounting

*Peter's summary observations - Presentation of MI, its pragmatic use to deal with relevant issues and in a way that challenges if things are not operating as it should. Third party/external views often useful and sometimes carry more weight. A different voice maybe initially thought to be negative for an internal accountant but handled right can produce quite positive outcomes. A cultural and leadership thing perhaps as by dealing with the core issues, client service and relationships can be improved at the same time as enhancing profitability. Getting pricing right can be a win win. Positive impact of strong external involvement in the strategy development can provide added focus. Attention to other key areas – file opening trends, peaks and troughs, lock up reviews, departmental performance on inbound enquiries are also often overlooked as key indicators.*

*Andy's summary observations - Review of the key information for management and fee earners. Establish monthly reports and KPI relevant to the business needs. Monthly review of forecasts for revenue, profitability and cash. Reports for the bank. Development of remuneration and reward programmes*

Over and above this I am investigating the <https://www.thefdcentre.co.uk> This organisation provides many businesses with experienced Finance Directors from 1 – 4 days per month dependent upon the needs. Key contact Paul Ferriday - [paul.ferriday@thefdcentre.co.uk](mailto:paul.ferriday@thefdcentre.co.uk) – follow up session for our sector outstanding but it really does help confirm the market trends.

### **In the interim**

Whilst making such decisions about the best way to manage finances in the interim there has to be a responsibility amongst business owners to look at the KPI and management information that is available within your current PMS and CMS products. Data needs to be relevant to each challenge.

Again there have been enhancements over the years but not everyone yet out of the box has key trended data – but you do need it. Year to date means very little. Perpetual forecasting by key nominals is essential for revenue, GP and cash flow.

KPIs need to be clear but above all variable for key behaviour changes by department, team and individual and they have to be variable say quarterly – getting billable time sorted out then moving on to efficiencies and WIP management – people and departments will have variable status – performance and time - across each of these.

Have motivational discussions with heads of finance and a bit more demanding conversations with accountancy and audit providers

### **Remember these and make it happen**

From December 2018. [http://www.professionalchoiceconsultancy.com/articles/December\\_2018.pdf](http://www.professionalchoiceconsultancy.com/articles/December_2018.pdf)

Assume your current performance as a business provides:

£k

- Revenue 4,000
- Direct Costs 2,000
- Gross Profit 2,000 (50%)
- Overhead 1,700
- Net Profit 300 (7.5%)

Increase your prices by 10%

- Revenue 4,400
- Direct Costs 2,000
- Gross Profit 2,400 (55%)
- Overhead 1,700
- Net Profit 700 (16%)

Cut your prices by 10%

- Revenue 3,600
- Direct Costs 2,000
- Gross Profit 1,600 (44%)
- Overhead 1,700
- Net Loss 100

Improve your GP from current starting point through efficiency

- Revenue 4,000

- Direct Costs 1,600
- Gross Profit 2,400 (60%)
- Overhead 1,700
- Net Profit 700 (17.5%)

Add to that the benefit of a price rise and you are really talking. £400k to the bottom line. It needs focus

Plus

Many firms generating 500 enquiries a month only actually convert 25% of those enquiries – and at say a lowly £500 per month equates to £62,500 billing per month and £750k annually. Those that are getting 50% per month generate £125,000 per month and £1.5million annually.

Some of the smart firms that focus are actually converting across the board 65% equating to £162,500 per month and £1.95million annually.

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