

A Way Out - But Just For One

It pays to know where you make your profits

By Eric Laing BA (Hons), C.A., F.C.M.A

Sally's life now smelt of manure rather than roses. A week earlier, their Accountants had produced the results for the previous year. The profit for their law firm would have depressed even a fully paid up member of the communist party. On the same day, the bank had notified them that their overdraft should be reduced.

Every night since then, Sally had awoken around three thirty. With no cushion of cash tucked away, every penny she drew she spent. She expected her share of profits to fall, but not to as low as fifty three thousand. At that level, she would have move house or change the children's school. She didn't want to do either.

The firm's accounts showed that the fees were down slightly on the previous year. The costs, listed in enormous detail, had increased. The overall effect was that the partnership profits suffered. As well as this, their work-in-progress and debtors showed a marked upturn.

Over the previous months, various partners had been muttering darkly about suspected poor performance in other partners' departments. However, with no hard evidence, difficult decisions were avoided, but the suspicions and resentments festered.

The partners' meeting, called after work to discuss the results, started badly. Steve made the snide comment that it was unusual to see Henry that late in the office. From then on, the increasingly acrimonious arguments swung between blame and action with no agreement on either.

Edward, their senior and managing partner, brought some semblance of normality to proceedings. His summation of the meeting thus

far was succinct – they had achieved nothing. He then announced that, as previously agreed, he had given an indication of their results to Wheatons. This was the slightly smaller but more dynamic firm, with whom discussions on a possible merger were in progress. Wheatons had not been impressed. They had, however made one positive suggestion: get the accounts analysed so that it could be clearly seen where the profit was made and lost.

* * *

Three months later, the partners sat down to discuss the analysis of their previous year's results. There had been disbelief with the report when it was first circulated. Several partners had challenged the figures. However, by the time of the meeting, there was almost universal depressed acceptance that its contents were realistic.

Edward started in a conciliatory manner. "I think that most of us were shocked by the difference in performance between our departments. It was certainly a real eye-opener for me." As he continued by reiterating the bases of the analysis, his tone hardened: "I hope we are all now clear that the profit for each job does show the real profit, after all the related costs have been deducted." He glared round the table at his fellow partners. "We also know that when we add up the profit on each job for each client, we find out the profit we make on each client." Edward made no attempt to avoid sounding like a primary school teacher. "We can all see that by taking the appropriate job profits for each department and deducting the departmental costs we get the profit for each department. When we add together all the departmental profits and deduct the central costs, we get the final profit figure for the firm. This figure

agrees to the one shown in our accounts, and which we have all previously agreed." Edward eyeballed each partner in turn, defying any of them to challenge him. "This means," he concluded, speaking slowly, "that this analysis provides a sound base for our deliberations. Is everyone now finally agreed on that?"

The only sound was the ticking of the wall clock. "Right," grunted Edward. "I shall summarise the key findings. It is quite clear that we are over dependant on too few clients in several departments. The implications of losing just two of our major clients from our Corporate department are horrendous. The department would be unsustainable in its present form. That means we could only have one corporate partner, instead of two." He stared straight at Steve, the other corporate partner.

"We have allowed our level of work-in-progress and debtors to spiral. We need to be much more business-like in closing files, billing the client, and making sure we get paid quickly." Edward paused and looked round the table. No one met his eye.

"In Corporate," he continued, "we have pitched some of our fixed price work too low. I must accept some of the blame for this. We then exacerbated the situation by failing to control our costs." As he said this, he again stared straight at Steve.

"As for Conveyancing! We really cannot go on like this. Far too much partner time is being spent on low level work, for which we cannot recover the partner fee rate."

"Family & probate, where we should be able to earn a reasonable living, we manage to clock up the chargeable hours, then have to discount them because the client objects.

Perhaps, if we operated more efficiently and kept our costs down, we would be able to charge for all the time we spend." Edward threw his hand in the air in exasperation, sat down, but promptly stood up again. "Sorry. I should have pointed out that the only area where we seem to be performing adequately is Employment. Well done Sally." He sat down again.

No one argued with Edward's summary.

The agenda moved onto the difficult part: what to do about it. The suggestions shown in the report were broadly, if reluctantly, accepted. The arguments arose over the specific actions. The problem was that each partner firmly resisted any major change for himself or his area. Fear of failure and the unknown outweighed the loss of profit. Eventually, all that could be agreed was to pursue the merger with Wheatons with utmost speed. In their hearts, everyone knew that the merger would result in many of the changes being imposed upon them. However, change is easier with someone guiding you!

As they left the meeting, Steve muttered to Sally that if, after another three months, there was little prospect of his earning level jumping to over one hundred and forty thousand, he would take up one of the approaches he regularly received. Sally said nothing. At that point, she would have settled for half that sum. Sadly, no one had approached her.

* * *

Two months later, Sally's path converged with Steve's as they headed towards the partners' meeting, called to hear the outcome of the merger talks. Steve looked morose. He glanced at Sally then spoke vaguely at the nearby water dispenser, "We're going to be told they don't want to join with us."

"Oh," responded Sally. She struggled to keep her face deadpan.

"Yeah. I was in on all the negotiations, remember." Steve did his best to sound tough and in control. After another moment he blurted out, "I thought they would at least take me, you know. They're a really smart outfit." He paused again. "They let slip they were keen on getting one of us. I was sure it was me they wanted." He paused again. "But it wasn't."

"I know," replied Sally. She couldn't keep her broad grin at bay any longer!

Eric Laing, a chartered accountant, has specialised in profit analysis for many years. He may be contacted at eric.laing@profitanalysis.co.uk. He will also be running a 2 hour seminar on profit analysis – 'Making More Money: What Can You Do About It?' for Birmingham Law Society on 13 May 2008 (AR80513). Please fill in the booking form on these pages or contact Paul Coates to book.

This article is about mythical law firms and people. All the events are entirely fictitious.

COURSE LIST MAY— JULY 2008

Date	Time	CPD Hours	Course Title	AR Code
9-May	13:30	N/A	Wills Drafting, Probate and Administration for Support Staff	AR80509
13-May	10:30	2	Making More Money: What can you do about it?	AR80513
15-May	9:30	6	Profitable Criminal Practice	AR80515
19-May	13:30	3	Money Laundering for Property Lawyers	AR80519
28-May	8:00	1	Effective Partnership Planning	AR80528
3-Jun	13:30	3	Powers of Attorney - Where are we now?	AR80603
11-Jun	13:30	3	Magistrate's Court Practice and Procedure	AR80611
12-Jun	14:30	2	Cross-Selling and Networking Skills	AR80612
18-Jun	13:30	3	Arguing Appeals - Written and Oral Appellate Advocacy	AR80618
19-Jun	10:00	N/A	Basic Conveyancing for Support Staff	AR80619
19-Jun	14:30	N/A	Advanced Conveyancing for Support Staff	AR80620
24-Jun	17:30	1	Effective Philanthropic Investing: Is it Possible?	AR80624
25-Jun	9:30	6	Sale and Supply of Goods and Services	AR80625
26-Jun	13:30	3	Family Law Update 2008	AR80626
27-Jun	13:30	3	Developing Your Presentation Skills to Win More Business	AR80627
1-Jul	18:30	1	Education Costs Planning	AR80701
2-Jul	13:30	3	Easements: Problems and Pitfalls	AR80702
8-July	9:30	N/A	People Management for Support Staff Managers in Law Firms Part 1 - Motivation, Communication and Teams	AR80708
8-July	13:30	N/A	People Management for Support Staff Managers in Law Firms Part 2 - Delegation, Management Styles and Performance Management.	AR80709

www.birminghamlawsociety.co.uk/training_sol.asp

All courses will be held at Birmingham Law Society, unless otherwise specified.

Course Fees

Member Rates

1 hour: £25+VAT
 2 hours: £55+VAT
 3 hours: £130+VAT
 5 - 7 hours: £200+VAT
 ● Support Staff: £85+VAT

Non-Member Rates

1 hour: £30+VAT
 2 hours: £70+VAT
 3 hours: £155+VAT
 5 - 7 hours: £250+VAT
 ● Support Staff: £100+VAT

Please make cheques payable to Birmingham Law Society

To book your place, please complete & return to

**Birmingham Law Society,
 8 Temple Street,
 Birmingham B2 5BT**

**DX: 13100 BIRMINGHAM 1
 Fax: 0121-633 3507**

Name

Firm

DX / Address

E-mail

Telephone

Please book me on the following courses (give course codes):

AR _____ AR _____ AR _____ AR _____

**Paul Coates
 Learning and Development Manager
 E: paulc@birminghamlawsociety.co.uk
 T: 0121-633 6905**

