Top Five
Revenue Strategies for Legal Firms

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DOES THIS REVENUE MODEL SOUND FAMILIAR?...

NUMBER OF FEE EARNERS X AVAILABLE HOURS PER FEE EARNER X PRODUCTIVITY PERCENTAGE X RECOVERY RATE = REVENUE

IF THIS IS YOUR MODEL, YOU'RE NOT ALONE WRITES MATTHEW SCHLYDER.

The majority of legal firms focus their revenue model around how many hours the firm has available to charge to clients in any given year. In fact, most professional service firms, including accountants, engineers and architects, also use this revenue model.

While it's the norm, it's a problematic model. It caps the revenue you can generate, and causes your team's daily behaviour to focus on production rather than revenue growth. It stops the leaders of the business getting out there and seriously growing the revenue of the firm.

I refer to this hours based revenue model as "Squeezing the Orange", where a firm tries to improve profitability on efficiency gains and by attempting ad hoc sales and marketing activity.

The problem with this is you can only "Squeeze the Orange" until it runs out of juice.

You can only minimise costs and increase margin to a point, and ad hoc marketing activities will get you nowhere.

Sure, systems improvements produce efficiency gains; however, the greatest gains are only made when the systems improvements are initially implemented. Any further efficiency gains are minimal after this and any strategies are focused more on maintaining the improved margins.

When Partners and Associates in firms constantly focus their efforts on achieving hours based budgets, they lose sight of the key activities that drive revenue in legal firms.

But the only way to increase your revenue is by having more hours to sell, right?

Wrong!

What it means is that your factory employs more people and to maintain margin you need to drive more revenue.

So why do anything different?

My challenge for legal firms is to adopt "business best practice", which means understanding that an hourly rate revenue model inhibits business growth. The revenue activities that drive revenue growth come from product, marketing and sales activities, not the "factory".

If you look at any successful business, it has separated the key revenue activities so that it can minimise the impact of variables on its daily/weekly/monthly/quarterly and annual revenue targets. For a business to truly be successful it must adopt the following Five Dimensional Revenue Strategy:

- **Product =** What you sell
- **Marketing =** How you generate leads
- **Sales =** How you convert leads to $ales
- **Operations and Delivery =** How you build the product
- **Client Relationship Management =** How you manage your clients' experience so that they buy and buy again

Each activity requires different skills and hinges on each other for revenue to grow. But each activity requires a different strategy so that the action plans are clear.

For a legal firm to truly be successful, the Partners of the business need to ensure that their mindset moves away from the hours based revenue model to one of a product focused and client relationship based model. A product focus doesn't mean that you commoditise what you do, it merely means that you are clear on the list of services that you provide, the value they give to the client and you have a program to improve and grow your service offerings over time. The opportunities that exist within a legal firm are endless with the right action plans in the right areas focusing on the right activities.

Yes, you still need to have a focus on systems and efficiency and charging hours to clients to generate your revenue, but these strategies and action plans fall under the activity of "Operations and Delivery". The O&D activities can only drive margin, they can't drive revenue growth. Revenue growth will only come from your Product, Marketing, Sales and Client Relationship Management activities.

To build your revenue model using the Five Dimensional Revenue Strategy, you need to understand and apply the Revenue Growth Formula which is:

Target Revenue

- = (current clients+ new clients^) x transaction frequency^ x average sale^ x margin^

Growing revenue is simply a matter of maths. '^' means **'make it exponential'.** Every strategy you implement must work to leverage the activity so that it produces consistent growth.

Any strategies you develop to grow revenue must fall within one of the formula components. If you analyse this further, each of the components relate back to the five revenue strategy activities as follows:

New Clients

- = marketing and sales

Transaction Frequency

- = product, marketing, sales and client relationship management

Average Sale

- = product, marketing, sales

Margin

- = operations and delivery

With a "Squeezing the Orange" revenue strategy, if you focus on margin only, you can only squeeze the orange until it runs out of juice. But with a five dimensional Revenue Growth Strategy, the growth in revenue can be exponential.

In the below example, you can see that small increments in each component have an exponential impact on the result.

The focus is to develop strategies in each of the growth formula components and then drive the activities to produce the revenue results.

In implementing any revenue strategy you must first pick the "low hanging fruit". Start with your current clients. They already know you, they already trust you. In nearly every instance they will have unmet needs.

	Current	Improvement	Target
Number of Clients	1000	15%	1,150
Transaction Frequency	2	25%	2.50
Average Sale	2,500	15%	2,875
Revenue	5,000,000	-	8,265,625
Margin	60%	10%	66%
Gross Profit	3,000,000	-	5,455,313
Improvement in Gross Profit			82%

You must prioritise your actions that will have the greatest probability of revenue growth so that you do these first. Any strategy must be assessed and categorised according to the following order of priority:

Priority #1

Providing existing products/ services to existing clients.

This is the first priority because you already know the product/service and the client already knows you. Make sure you are providing all of your products/services to all of your clients

Priority #2

Providing new products/services to existing clients.

You already have a relationship with these clients, so their resistance to purchasing new products from you will be less.

Priority #3

Providing existing products/ services to new clients.

We all agree that it is easier to sell to an existing client than a new client. New clients usually take time to acquire; time to understand their needs and time to build trust with you.

Priority #4

Providing new products/services to new clients.

It's simple. If new clients are harder to find and new products are harder to sell, then this should be last priority.

The Top Five revenue strategies for legal firms to drive revenue growth are:

1. Product

Define all products/services provided by your firm, or capable of being provided, to your clients. You will find that there are endless opportunities to provide these products to existing clients that have not bought them from your firm. Don't tell yourself that the clients don't want them. You don't know until you ask them. You need to recognise that your clients are clients of your firm, and for certain products may be better provided by others in the firm, not you. Price these products using a value-based approach, so that clients can see the benefit of employing you to provide them, rather than seeing an hourly rate charged for the service.

2. Marketing

Develop a marketing strategy to drive an increase in transaction frequency so that your clients are aware of all of your products. The marketing strategy must be designed to educate your clients about all of the services you provide and to drive leads from clients for these services.

3. Sales

Separate sales activities from marketing and implement a structured sales process so that leads generated are converted to revenue.

4. Operations and Delivery

Systemise everything and manage your hourly based strategy so that it is used as a measure of capacity management and efficiency performance.

5. Client Relationship Management

Build a structured system so that client experiences aren't left to chance.

If you implement these five key strategies by focusing on providing your existing products and services to existing clients, and ensuring that your revenue strategy is built using the Revenue Growth Formula, your revenue will grow in a structured and sustainable way.

Changes
to Trust Distribution at Tax Time

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Small businesses and corporates alike could pay more tax than expected due to recent tax law changes surrounding trust distributions.

Trusts have previously been able to distribute to a range of beneficiaries including individuals and companies.

Up until now, businesses have used this allowance as an effective tax deferral strategy. Distributing to a company means that taxable profit is taxed at 30% instead of a potential 46.5%, and accountants have been advising it as part of their client's taxation plans.

Often the distribution was done on paper so the cash profit could be left in the Trust to fund business working capital. A dividend did not have to be physically paid out of the company until the Directors determined.

However, on 16 December 2009, the ATO announced a change in position on such distributions, finalising its view on 2 June 2010.

Significantly, the final ruling is retrospective so Trustees who have made distributions to companies which are unpaid need to determine the impact it will have on the amount payable to the tax office.

Where Trusts have made distributions to companies before 16 December 2009, there is some quarantining available, provided certain rules are met.

If the unpaid amount is determined to be a loan, the amount that is owing may have to be repaid over a period of seven years in most circumstances, with interest at the ATO determined rate under a documented loan agreement. This can have a significant impact on tax payable so it is vital that Trustees consider the implications of these earlier distributions now.

However, all distributions made after 16 December 2009 will be subject to the new laws.

Loan agreements will need to be entered into with specific terms depending on security offered. The ATO determines the interest rate to be charged on these loans and the minimum repayments due each year.

With tax time nearing, these new laws will have a major impact on the tax payable by a large percentage of small and medium sized businesses and corporates.

In most cases, business owners will need to complete a new Taxation Plan in order to structure their affairs so that they legally pay the least amount of tax possible and retain more income. Every business owner should have a Taxation Plan which is up to date and complies with the latest ATO rulings and taxation legislation.