

## IMPROVING PROFITS – WHY GEARING/LEVERAGE IS THE KEY

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The single largest influence on a firm's profitability is the **number of chargeable hours billed by non-partners**. It comes as a surprise to many that firms with the highest number of chargeable hours billed and recovered by non partners are those achieving the highest quantity of profit for distribution. It follows that higher increases in profits are achieved by raising the **number** of billable hours from assistants than by increasing those of partners. (See example below.)

This single fact touches more nerves in practice management than any other factor as it goes to the core 'culture' of any firm. The whole structure of a practice is predicated by who does the work and how the client is serviced. A number of firms fall prey to client demands for a partner's attention to a matter irrespective of any consideration as to costs and work allocation procedures. This is the only reasonable explanation for the unique 'gearing' structure that has developed where approximately half of all solicitors in private practice are partners/principals and the remainder are assistants. This 1:1 ratio occurs nowhere else. For example, the ratio in England and Wales is approximately one partner to two assistants. Clearly, it is not possible to change gearing levels overnight but there are initiatives that can be introduced that will lead to profit improvement. These include more rigorous methods of allocating new matters, using long term professional skills development programmes and providing quality supervision. For example, many practices have achieved significant results by ensuring all new matters are allocated to the least experienced person able to handle it without prejudicing service quality.

### Example:

If a firm can raise the number of assistant chargeable hours from 1150 p.a. to an achievable 1400 p.a. and has 2 assistants per partner, an additional 500 hours will be billed. At a charging rate of say \$160 p.h. an extra \$80,000 of profit will be generated. A partner charging \$225 p.h. would have to work and bill more than 1.5 **extra hours per day** to achieve a similar amount. The changes are even more dramatic if a partner can manage three assistants. Some partners consider this figure impossible yet plenty manage it in the international arena. Commercial firms in New York and London are achieving seven or more assistants per partner. The key is quality supervision to maximise the potential of the most costly asset in any firm – its staff.

Introducing 'gearing' changes cannot be achieved quickly but the results can be dramatic. Firms wishing to change gearing levels should consider:

- Ensuring that no assistant is elevated to partner status until increases in profits will fund the extra costs.
- Introducing sound staff evaluation/appraisal programmes.
- Focus on maximising assistant chargeable time.
- Ensuring partners have sound supervisory skills.
- Working with clients to ensure work is allocated effectively.
- The application of staff development programmes.
- Monitoring time management programmes to identify 'lost' billable time.
- Maximise client and staff retention policies.
- Getting comfortable with all the priorities underpinning profits – gearing, chargeable hours, charge-out rates, recovery and margin. (They are inextricably linked in a formula.)