HOW TO MANAGE A SMALL LAW FIRM
HAPPY LAWYERS MAKE MORE MONEY

ALL DIGITAL MEMBERSHIP

Practicing Profits: Six Numbers You Need to Know

August 2018 Coaching Call

Scott: Hey, everyone! This is Scott Whittaker. I am your community manager for the How to Manage a Small Law Firm All-Digital Membership. I want to welcome you to our coaching call today. We're going to get started in just a moment. I wanted to come on the line and just welcome everybody as people are still dialing in and give them an opportunity to get connected to our call here. It's going to be a great call. RJon and I connected a little bit earlier and talked through his outline that he'd already prepared and he shared it with me. We're going to give you some great applications that you can take today and immediately get a return on your investment, so it's going to be a great call today.

One of the things that we like to do when we start these calls, we like to remind you this is your opportunity to go to work on your law firm. Throughout the month, you're spending time working inside your law firm. You're meeting with prospective clients. You're working on cases. You're going to court. You're doing all that it takes to be able to run your law firm, but during this next hour or so, we want you to go to work on your law firm. Here's what I mean by that. Number one, I want you to take out a pad of paper and a pen, so whether you're on the call live or you're listening to this by way of the bonus kit or your membership site, take out a pad of paper and a pen, get ready to take some notes, and write down some applications of when you're going to do what as a result of this call.

The second thing that we'd like to say, that RJon and I like to say, is that we want you to treat this as if you were meeting with a prospective new client. If there was a prospective new client coming into your law firm in your office, how would you treat that time that you have? Well, I can tell you what you wouldn't be doing. You wouldn't be on Facebook. You wouldn't be on LinkedIn. You wouldn't be checking your email and doing all that sort of stuff. Don't do that during this time that we have together. Set this time aside and just look at it as an opportunity for you to help more people and get more clients, so that's what we want you to do. Take out a pad of paper and a pen, shut down your email, shut down your Facebook, all the social media stuff, and get ready to take some great notes here today.

Having said all that, RJon, are you there?

RJon: I'm here, Scott. Thank you for that introduction.

Scott: Hey, it's going to be a great call today. Now, we've got a great group of people joining us and more people calling in. I want to thank you for setting aside time to join us for this coaching call and all your preparation that you've been doing leading up to this time that we've got together.

RJon: I've been preparing for this call for 47 years.

Scott: You just shared your age, man, You just shared your age.

RJon: I have. I'm not joking. A lot of lawyers, a lot of the law firm business owners that we meet around the country, they really spend a lot of time working for the other side. Imagine, Scott, if you were involved in litigation. Let's say you're the defendant in litigation. You wouldn't want your attorney working on behalf of the plaintiff, would you?

Scott: No, not at all.

RJon: How would you feel if you found out that your attorney was working on behalf of the plaintiff when you're the defendant?

Scott: I would feel totally betrayed.

RJon: So you understand that the reason that a lot of law firms aren't making more money and the reason why a lot of law firm owners aren't making more money is because their greatest advocate is working against them. Just imagine how many hours the average attorney spends beating themselves up about everything they haven't accomplished yet. "Oh man, I'm 47 years old and by this point in my life, I thought I would be so much further ahead of where I am. Look at how much more I could accomplish that I haven't accomplished yet. Woe is me. I'm doing so bad. Let me find someone to compare myself to."

If I want to make myself feel bad, if I want to put myself in the worst possible light and really mess up my thinking, am I going to compare myself to someone who's doing worse than me? No. If I want to make myself feel really, really horrible, I'll go ahead and compare myself with someone who's doing better than me, never mind the fact that I really don't understand what that person did or how they did it to be doing so much better than me. I'm just going to find someone who seems to be doing better than me and that's who I'm going to choose to compare myself to.

Then of course when they want to pick themselves back up again then they'd go and they'd find someone who they can compare themselves to who they think is really worse than them and then they go, "Oh, I want to feel better about myself, so I'm going to compare myself to someone who's doing worse than me." They go around and they find someone who maybe doesn't have as much experience at the business of running a law firm and they compare the success of their law firm to someone who doesn't have as much training in the business of running a law firm, or if they want to make themselves feel better because their law firm is doing really bad then they say, "You know what I'm going to do? Today, I'm not going to compare myself to someone else based on the financial performance of the business because my own business is not doing well, so instead, I'm going to compare myself to someone who has less experience at the practice of law to me than I do because everyone else, even if they have less experience in the practice of law, maybe their law firm is doing better, but they're not as good of a lawyer. So I'll make myself feel better by comparing myself to them on this other criteria instead today."

The next day, of course, they feel they want to make themselves feel better or they want to make themselves feel worse, so they will go around and they'll start to -- like forum shopping. They'll start shopping for what they're going to compare themselves to other people based on the criteria of the day depending on if they want to give themselves an up or they want to give themselves a down.

Scott, we didn't talk about this before the call, so I'm putting you on the spot, but what does that sound a lot like, a person who wakes up every day and depending on how they want to make themselves feel, they go looking for one thing or they go looking for another thing to bring themselves up or bring themselves down? What does that behavior sound a lot like?

Scott: Just to say it's emotionally unstable behavior. I don't know what the medical term would be, but you're just swinging the pendulum back and forth, back and forth from one extreme to the other just on the extreme emotional basis.

RJon: The answer I was looking for actually was drug addict. That's how drug addicts behave.

Scott: Yeah, I can see that as well.

RJon: They take an upper. They take something to speed them up. They want to get themselves down, they feel too high, so they take a downer to get themselves down. They literally go through life trying to modulate their mood based on their drug of the day. That's how a lot of law firm owners are really operating their business. They're modulating their mood of the day by "I'm going to look for an upper and find someone that I can compare myself to that makes me feel good about myself" or "I'm going to make myself feel worse and bring myself back down and I'll compare myself to someone based on some criteria that I can find" because you can always find someone that's doing better than you at something. You can always find someone that's doing worse than you at something.

I have a friend who's much taller than me, but I happen to make more money than him, so if I want to make myself feel better, I'd say, "Oh, I make more money than my friend," but if I want to make myself feel worse, I'll say, "Oh, my friend is so much taller than me." Anytime you're engaging in any of this behavior -- and this is the point -- anytime you're engaging in any of this kind of behavior, it is self-abuse. It is a form of self-abuse when you compare yourself to anyone else on any criteria for the purpose of manipulating your mood or your feeling. Instead, if you want to run a supper successful business, if you want to live a much happier life, you compare yourself to yourself. You don't compare yourself to other people. You compare where your business is today against where your business was a year ago today. You compare your business where it is today versus where you want it to be a year from now today.

Today's date is -- what is today's date again? August 22nd, 2018. August 22nd, 2018, my business brought in -- I'm just going to make up a number -- $10,000 this day. How much business did my business bring in August 22nd, 2017? It brought in $9,000 and I'm doing better on this August 22nd versus last year's August 22nd. Next year, I want to do better, so I set the goals that I want August 22nd of next year to be a $15,000 day. This is how you run a business with sanity. You compare your business against previous periods of performance.

Now, in a law firm, I do not recommend that you do day on day comparisons because that's a recipe for driving yourself crazy because there are too many fluctuations throughout the day. I also do not recommend that you do week on week comparison, so month on month comparisons are how you bring sanity to a law firm. So August of 2017, my business grossed $70,000, and August of 2018, my business grossed $100,000. Clearly, I'm doing better. If my goal is to grow the business then I set the goal and I say 2017 I grossed $70,000; 2018, I grossed $100,000. I'm now going to make my goal to figure out how to make August 2019 a $200,000 month. That's how you run your law firm in a sane way where you're in control of things.

Stop comparing yourself to other people and other firms and only compare yourself to your firm because at the end of the day, who cares if all the other lawyers around you are taking home $1 million? If you need to take home $500,000 to live the way you want to live, God bless them. Be happy for them that they're making a million. If you've got your $500,000 that it cost to live the way you want to live then you're happy because you're living the way you want to live. On the other hand, if it costs $500,000 to live the way you really want to live and all the other lawyers around you are taking home only $250,000 and so you don't push yourself to make the money you want to make and you only make $400,000, you still are not living the way you want to live even though you're living better than everyone else. This is a mindset trap that a lot of struggling lawyers get stuck in and they burn themselves up worrying about what other people are making versus what they're making.

Now, I'm not saying you should not educate yourself about what's possible. If you recognize that there's a lawyer with a similar practice for years who's making a lot more money than you're making and they're working less hours than you're working and seem to have more fun than you have, you certainly can look at that and say, "Wow! I'm inspired. I'm inspired because now I recognize that someone can do something that I didn't think that I could do and I know that if they can do it, it means I can do it also," but that's not the way a lot of people react. A lot of people, when they see something that should inspire them and motivate them, instead they get petty, jealous, angry, and upset. "Why is that idiot rich and I'm not?" It works the other way around if you get into that way of thinking though because if you're in that mode of thinking, it inevitably happens. You can't help it from happening.

When you are in that mode of thinking, what will inevitably happen, it will also happen that you'll see someone who's making less than you're making and that will cause you to slow down. That will cause you to start falling short of your goals and finding reasons and justifications and excuses to break your commitment and your promises that you've made to yourself and possibly to your family too. So that entire way of thinking where you're comparing yourself to other people for the purpose of making yourself feel better or making yourself feel worse, they're all dysfunctional, self-abusive, unhealthy, and ultimately unprofitable thinking. The healthy, productive, profitable way of thinking instead is to compare yourself to yourself.

Scott, I've got six main numbers that I want to talk about under the category of a title called Practicing Profits. We're all about practicing law --

Scott: RJon, I was going to add something too that one of the other things that we do and that we've seen happen is we sometimes force the numbers to be not true. What I mean by that is we say, "Well, I was doing this in August of 2017. I was doing 20 grand in August 2017. I'm doing 15 grand August 2018, but that's okay because I actually had a better July this year than I did last year." Then you relax a little bit because you say, "Well, I had a really, really good July," so then you're almost just kind of coached through the next month and then you justify it. You can't do that. The numbers are the numbers. As RJon has shared with us, truth is truth and you can't say.

So just because you had a really good July of this year, it has no bearing or no impact on the truth and the reality of where your numbers are for August. If you're behind this August compared to last August, you're behind. What you did in July has no bearing on it. You're behind for the month of August, so don't fool yourself. Don't fool yourself by allowing yourself to look at other numbers to justify your actions or behavior or allowing yourself to say, "Well, I'll just take it easy this month because I had a really good month last month."

RJon: That's like the same thing of saying it doesn't matter that we lost this game because we won the last game. August is a completely different game than July and September will be a completely different game than August. For those of us who went to law school with an undergraduate degree in something other than business and finance, which includes me, by the way, this is kind of a whole new way of thinking. It's a little bit scary and it's a little bit intimidating at first, but I promise you, everyone who's listening to this, that when you begin thinking this way, once you get comfortable thinking this way -- and it'll take some practice. It will and I understand and I have a lot of sensitivity and respect for the fact that it's not comfortable in the beginning, but once you get comfortable thinking this way, it's a much healthier way of thinking. It's a much more profitable way of thinking. You're able to make clearer, better, and more confident decisions, and it's a much more profitable way of thinking. It's not so much what you think about as much as how you think about what you think about that makes a huge difference in the profitability and the performance of your business.

We spend all the time worrying about the practice of law, but as business owners, we have to concern ourselves with another practice, which is the practice of profitability. We need to practice being profitable. Being profitable doesn't happen naturally for most people, certainly not for most lawyers because we're generous. We want to help people. We want to pay fair and reasonable wages and salaries and benefits to our employees. We want to be fair with our vendors. We want to be good people and it's not that being profitable means you have to not be a good person. It just means that being profitable means you have to manage your business more objectively and not just based on your feelings and that takes some practice.

I want everyone to think about where and how are you practicing being profitable in your business. I want to congratulate you and I want to tell you that in all seriousness -- and I'm not saying this just to blow smoke. I can back this up objectively -- you are better than most of the other lawyers around you. By virtue of the fact that you're listening to this recording, you hear my voice right now or you're reading the transcript of this right now, you are better than all the other law firm owners who don't bother to think about this stuff. If you don't bother to think about the profitability of your business, if you don't practice profitability in your law firm then your law firm does not have the resources to afford the tools and the staff and the help that you need to provide maximum value to your clients.

No one benefits by an unprofitable law firm. All of your clients, if they were given a choice between having a more profitable law firm or a less profitable law firm representing their interests, every educated, informed, more sophisticated client would prefer to have the more profitable law firm if given the choice. Flip it around, if most lawyers told their clients in maybe a disclosure or a disclaimer and said, "Listen. As part of the inducement to engage my firm, I told you about my legal credentials and my experience in the practice of law. As part of the inducement to engage my firm, I've made certain promises and commitments to exert effort. Obviously, I cannot promise results, but I promise effort and I promise diligence. I promise loyalty and I promise fiduciary. I'll be a fiduciary to you and I promise to work my ass off. I promise to not sleep until all your rights are protected."

"But in the interest of full disclosure, I feel like I should also tell you some other things that you should take into consideration as part of your decision to engage my firm and I want to disclose to you that I do not have any policies or procedures documented for how I'm supposed to actually do the work. I'm just doing it from memory. In further disclosure, I feel like I need to disclose to you because it's material to your decision to hire my firm or I think it should be material to your decision to hire my firm, I need to disclose to you that I'm not really sure how I'm going to be making payroll next month. Now, the reason why that's material is because your case or your matter is likely to take 3, 4, 5, 6, 12 months to resolve and I need you to know I'm not really sure how I'm going to be making payroll or paying my rent six months from now. I think that's a risk that you should be taking into consideration before you choose to engage my firm."

"Oh, by the way, I should also let you know that I really don't know how much money my law firm is making. I don't know how much gross revenue I've got coming in. I don't know what my costs are for delivering these services. I don't know whether I'm making a profit or not making a profit on this fee that I just quoted you. I don't know what my gross profits are going to be. I don't know really what my numbers are, but don't you worry. I really care about you. I'm a great lawyer and I'm committed to protecting your rights, but just in the interest of disclosure, in the interest of fairness, I feel like I need to disclose all of these facts in helping you make your decision before you engage my firm."

Scott, if a lawyer said all that to you, will you engage their firm?

Scott: I'm not so sure.

RJon: Probably not, right?

Scott: That's right.

RJon: If you would not engage a law firm if these facts were disclosed to you, that means those facts are material. Do you follow?

Scott: Got it.

RJon: If I disclose to you, "Listen. Before you hire my law firm, I think I should disclose to you that I'm wearing blue socks and not black socks" and you say, "That makes no difference to me. I don't care," that's non-material. It's an immaterial fact. It's not material to the decision, but if the decision would change based on the disclosure or non-disclosure of that same fact, that makes that fact a material fact in the decision. Failure to disclose material facts, there's a call to action for that in the law, Scott. It's called Flawed in the Inducement. Practicing profit is really an ethical decision, to make the decision to practice profit and to pay attention to the finances of your business because you know that if you were to disclose the truth about the profits or lack of financial controls in a law firm, you know that the client would not hire the firm or would not hire the firm on the same terms. You know it's a material fact.

Scott, I was having a conversation recently. This month, the month of August, I've got a workshop jam-packed. The members who have CEOs and COOs and CFOs who attend the Live Quarterly Meetings, they attended the last Live Quarterly Meeting and they demanded -- they asked for it, but they were insistent on some special workshops and we owed everyone a workshop for a favor that some of our members did for us awhile back and we delivered on it two weeks ago. Two weeks ago, I delivered a workshop entitled -- and this is actually the name of the workshop. The title of the workshop was "A Really Great Workshop About Some Very Important Subjects That You'll Be Very Glad That You Attended To Help Make Your Law Firm and Your Life Better". That was literally the title of the workshop.

Fifteen of our members flew in from all around the country and several of them brought a spouse or a significant other. We sat around in a living room type of setting. We sat around for two days in a living room type of setting and we just talked about a wide range of different topics, issues, challenges, opportunities and different things that were going on in the law firm and in their life, and it's really cool to not have a real specific agenda that we had to follow. We talked about everything from we critiqued the copy on someone's website. We talked about staffing strategies. We talked about marketing opportunities. We helped someone engineer the title and the content for a workshop that they were going to conduct to grow their firm. We came up with pricing strategies for someone else's firm. We talked about issues that several of the lawyers in the audience were under 35 years old and we talked about some of the unique challenges that younger attorneys have when it comes to running the business of a law firm. It's really interesting. Half the group I think were minorities and we talked about some of the unique challenges that minority attorneys face. It was really, really interesting.

Then last weekend or in the last few days, Saturday, Sunday, Monday that just passed, we ran our Tax Savings Strategy Workshop. Basically, we've got 10 law firms together. Minimum qualifications to get in the room are you've got to be taking at least $150,000 a year out of your firm. That's not gross revenue. That's money you're taking out of the firm and reporting as income tax. We did a three-day workshop and the minimum we saved, each lawyer in that room, was $19,000 in actual after tax, real in-your-pocket savings, and we offered a money back guarantee on that. While we were having that workshop -- by the way, tomorrow we're starting our sales workshop. Are you coming for that, the sales workshop?

Scott: No, I won't be there for that one.

RJon: Okay. We've got about 20 to 25 of our members coming to the sales workshop to teach them all about how to very comfortably, very professionally, very, very ethically, but very reliably convert prospective clients into paying clients.

Anyway, you can learn more about this at howtomanageasmalllawfirm.com/30daysaway. This is not a pitch to sell the workshop. They're all sold out. No seats are available. I'm not saying this to sell it, but we're shooting a series of videos this month and part of next month around some of these topics.

One of the topics that came up was someone [Inaudible 00:26:56] -- I literally took out a piece of paper and wrote this down and I carried it around in my pocket for three days ever since in preparation for today's call. One of our outside CFOs said, "How can you have so much of your life invested in a business that you know so little about?" He was referring to the financials. So I want to talk about six important things that you should know about your business, six important things that you should know about your law firm because you have so much invested in this law firm. You've got your family's well-being invested in this law firm. You've got your professional reputation invested in this law firm. You've got so much invested in this law firm and you just got to know these things about what's going on in the business side of your law firm. Are you ready for it, Scott?

Scott: I'm ready for it.

RJon: All right. I'm hoping everyone writes this down. One, you've got to know your gross revenues. It's shocking to me. I speak with thousands of lawyers all over the country. I go around and I do speeches. I do workshops with people who are not members of How to Manage a Small Law Firm, people who don't take the initiatives and know about their business, and they literally cannot tell me what the gross revenues of their law firm was last year, last quarter, or even last month. I'm not saying you need to know down to the penny. There are a lot of people who will say, "If you don't know your number to the penny, you're out of control." I'm not going to put that on you, but you've got to know like around -- I mean you've got to be within 10 percent, don't you think? You've got to be at least 10 percent close to what your revenues were last year. If your revenues last year were $500,000 and you tell me somewhere between $450,000 and $500,000, I'll accept that.

That's okay, even the ballpark, but if your revenues last year were $200,000 and you don't know that they were somewhere between $175,000 and $200,000, if you don't have a clue what your revenues were last year then how can you have so much of your life invested in a business that you don't know even the most basic thing about how much were your gross revenues last year, how much did you put into your operating account last year? You've got to know your gross revenue.

Now, this is important for lots of different reasons because Part A like part of one is gross revenue. 1(a) subpart of gross revenue is your pricing strategies. If you don't know what your gross revenues are then I know that you don't really have any strategies behind your pricing. I know that your pricing is just random. If you don't know what your gross revenues were last year, if you don't know what your gross revenues were last quarter, if you don't know within a week or two at the end of the month what the gross revenues were for the month that just closed, that just ended, then I know that your pricing strategies are based on the market. In other words, you're looking around the other lawyers around you. You're comparing yourself to those other lawyers. Some of those other lawyers you're saying are better than you, so make your price lower than their price. Some of those other lawyers, you say, "I'm better than that lawyer" so you make your price higher than that other lawyer, and you're allowing other lawyers to dictate your prices to you, which drives so much else in your else which has such a huge impact on the rest of your life and that's self-abuse. That's a form of self-abuse when you compare yourself to other people. If your prices are based on you comparing yourself to other people then you're further compounding the self-abuse by screwing up the pricing and the potential profitability of your business.

Gross revenues are critical to know and then being able to explain in plain English -- you don't need complicated spreadsheets and market studies and all the things people like to hide behind, but you've got to be able to explain in plain English why your prices are what your prices are. Scott, there are three main approaches that most lawyers take in choosing their prices, in determining their prices. I'm going to go from worst to best, which also sadly is the most common to least common. The most common, which is the worst, is to -- I said three. There are four. The worst is they take whatever their previous boss was charging for their services and they just bring that into their new business. "Why do you charge $225 an hour?" "Well, I charge $225 an hour because my last boss used to bill me out for $225 an hour, so I figure that's about all I'm worth because my last boss was a better judge of my value than me." That's the worst approach, which is also sadly the most common approach.

Slightly better than that, not much better, but also quite common, is, "Why do you charge what we charge?" Why do you charge $5,000 for a DUI, for example? The answer is, "Well, I charge $5,000 flat fee for a DUI because that's what everyone in this market charges. That's the going rate in this market," which is the same thing as saying I'm going to relegate myself to being a commodity. Then of course I'm going to whine and complain about the fact that everyone treats me like a commodity, so why shouldn't they treat you like a commodity when you treat yourself like a commodity first? That's the second approach, is the market price. That's what the market will bear, which is bullshit. That's what the market will bear. You haven't even tested it if that's what you're saying. If anyone said that's what the market will bear, 99 times out of 100 has not actually tested it, or if they did test it, they set themselves up for failure in the test. We could always find examples of lawyers who are charging more than the "market rate" and those lawyers have happy clients who refer them lots of business and are cooperative and they give them good reviews and they're glad to pay more for similar type of services because the lawyer finds way to add extra value. That second approach so "That's what the market will bear."

The third strategy is strategic and it's far less common. It's rare to find a lawyer who will give you a strategic explanation for how they came up with the price of their services. The strategic approach starts off with understanding your cost of goods sold, saying, "This is what it cost me to deliver this service. It requires an hour of receptionist time. It requires two hours of paralegal time. It requires three hours of associate time. It requires an hour of CEO or attorney to review time, the cost of the receptionist of X, the cost of the paralegal of Y, the cost of the associate of Z, the cost of the senior associate of something else. I take my cost of goods sold. I put them altogether. This is what it cost to deliver the service and I want to make a 25 percent profit, so I mark it up by 25 percent." That's a strategic approach. By the way, I just made up 25 percent, so don't go around saying, "RJon said 25 percent." I could've said 50 percent, 100 percent, whatever. You get the idea. Am I making that clear, Scott, that third approach?

Scott: Yeah, absolutely.

RJon: That's the third approach is understanding your cost of goods sold and doing your homework to figure out what does it actually cost you to deliver the service. Now, a lot of lawyers cop out. They cop out. They do a cop-out and they say, "What does it matter? I just bill by the hour." Clients hate paying by the hour. Law firms were not originally designed to be businesses that ran by the hour. For thousands of years, lawyers ran law firms and no one ever billed by the hour. No one started billing by the hour until the 1960s. Actually, it became more prevalent in the 1970s. Before then, lawyers all billed based on value. It was value-based billing. The hourly billable is a virus that infected the legal industry in the late '60s, early 1970s, and it's been screwing up law firms ever since.

Every time you move your law firm off the billable hour on to flat fee or value-based billing, your clients become happier. Your marketing becomes less expensive. Your referral starts to go up. Your staff becomes more cooperative and easier to manage. Your law firm becomes more profitable and you will find more professional satisfaction in your life than just selling hours. Selling hours means I don't know my business. I have not taken enough interest in my business to know what my costs really are that I can price my services strategically to be fair and reasonable for the client and fair and reasonable for me, the business owner. That's the third approach.

The fourth approach, which is the best approach, is value-based billing. What's the value of this service? If I can deliver a $100 value to you, Scott, and I can sell it to you for only $50, are you happy or do you feel taken advantage of?

Scott: I'll feel happy, man.

RJon: Right. Every time I can give you a $100 bill for a $50 bill, you're going to line up to give me as many $50 bills as you can get your hands on, right?

Scott: That's right.

RJon: You give me $50, I give you $100. You give me $50, I give you $100. You give me $50, I give you $100. Pretty sure, you'd come in and you'd say, "Listen. Can we just expedite this? Let me just give you $100 and you give me $200 back" then I say, "Yeah, sure, I'll do that." Now, you give me $100 and I give you $200. You give me $100 and I give you $200. You give me $100 and I give you $200. Pretty soon, you're saying to me, "Hey, can we just speed this up and I'll write you a check for $200 and you give me back $400?" and I say, "Yeah, sure." So now, you start writing me a check for $200 and I give you back $400. You write me a check for $200 and I give you a check back for $400.

This is exactly why our members keep demanding so many workshops from me because I give at least five times return on investment. Every time they invest a dollar on a workshop with me -- Scott, you've been there. You know that I make sure we're giving at least a $5 return on their investment. So if they invest $1,000 on a workshop, they're going to walk out with $5,000 worth of value and that's what brings them coming back for more. That's why we get a third of our business by referrals every year. That's why our members stay with us for year after year after year. We've got so many long-term members because this is the way we run our business with value-based pricing. This is the least common. It's the most profitable. It's the best way to run a professional services business, is value-based pricing, but if you don't even know your gross revenues then you'll have no chance of being able to convince me that you have any strategy behind your pricing.

Number two, are you ready for this one?

Scott: Go for it. I'm taking notes.

RJon: Cost of goods sold. I alluded to it earlier. You need to know what it costs you to deliver a service. You don't need to know what it costs you necessarily to deliver -- even if you're billing by the hour, you need to know what it cost you to put that hour out there. If you're paying an associate $75,000 a year and you expect that associate to produce 1,300 hours a year, you take $75,000 times 1.20 with benefits, it means it cost you $90,000. If you expect that associate to give you 1,300 hours, you take $90,000 divided by 1,300 hours, it cost you $69 an hour. It cost $70 an hour. So if you're billing that associate out at $170 an hour then your cost of that hour is $70. You bill it out for $170 and your gross profit is $100 on that $170. Did I go too fast? Do you want me to go slower and give another example or is that clear?

Scott: Give it one more time.

RJon: Let's say you have an associate and you paid that associate -- you give me a number. How much do we pay the associate?

Scott: I'll use round numbers and say 100 bucks.

RJon: You pay the associate $100,000. We take $100,000 times 1.20. 1.20 is the cost of the benefits that it cost you, the payroll taxes, the insurance. All the other things that ends up costing you to support that associate were not accounted in the cost of the office space and all the other things, just a round number, 20 percent. You round it up by 20 percent, so it cost you $120,000 a year to employ the $100,000 associate. Do you follow? You take whatever the salary is and you multiply it by 1.2 to gross it up by about 20 percent. That's not the exact right formula, but it'll get you close enough to this conversation. Are you with me?

Scott: Got it.

RJon: Then you take $120,000, which is what it's costing you, and what you're getting for that $120,000 is X number of billable hours per year that you expect that associate to produce which your law firm can sell to clients. Let's say you expect the associate to work 46 weeks a year and 40 to 50 hours a week and you expect about 30 real productive hours out of the associate per week. You get around 1,300 to 1,400 productive hours per year out of an associate if you manage them well and keep them busy. Do you follow?

Scott: Got it.

RJon: So if you pay $120,000 a year and you get back 1,300 hours a year, you take $120,000 divided by 1,300 hours and that cost you $92 an hour. So for every hour that the associate worked that you sell to a client, it cost you $92. If the client doesn't pay the bill, it still cost you $92. If you write it down, it still cost you $92. If the associate forgets to record the hour and it falls into the abyss, it still cost you $92. Every hour that the associate is working on billable work, work that should be billed, cost the firm $92. If you want to have 100 percent gross profit on that associate and it cost you $92 then you take $92 times 2, 100 percent, and you need to bill that associate out at $185 -- I mean $184.61, but that doesn't make any sense, so you round it up to $185. So the $100,000 associate produces 1,300 productive billable hours in a year, cost you $92 an hour for the associate, and you bill and collect $184 an hour on that associate, then you're making 100 percent markup on the associate. Does that make sense?

Scott: That makes sense.

RJon: That means your gross profit is 100 percent on that associate. You ask 9,999 law firm owners, small law firm owners what is your cost of goods sold and they don't have a clue, which means their pricing strategy is random at best. You've got to know your gross profits. You can't squeeze net profits out of something that doesn't have gross profits. Everywhere we go, we find law firms that are losing money on the gross profit, meaning it's costing them more money to deliver the services than they're charging, and they think they're going to make it up with better marketing. Making the marketing better if you're losing money on every hour you sell is like making the hole big around the bottom of the boat because the boat is already sinking. You're just making things worse, but how can you have so much on your life invested in a business you know so little about?

If you don't understand what your cost of goods sold is, if you don't know what your gross profit margin is on all of the different products or services you're selling, or even if you bill by the hour, to understand what your cost of goods sold is on the hours themselves then you don't really know what's going on in your business. You can't possibly know what's really going on in your business.

Number four, Scott, is -- number three is gross profits. One is gross revenue. Two is cost of goods sold. Three is gross profits. Four is your revenue to labor cost ratio.

Scott: Can you say that one more time?

RJon: Revenue, gross revenue to labor cost ratio. What is the ratio of the revenue per labor cost dollars? What does it cost you? In other words, let's say your firm grosses $250,000 a year and the firm has labor cost of $50,000 a year. $250,000 divided by $50,000 is five, right?

Scott: Right.

RJon: 250 divided by 50 is five. $250,000 divided by $50,000 is five. That will give you a labor cost ratio of five. If it cost you $50,000 of labor to produce $250,000 of revenue then you have a five times labor cost ratio. Are you with me?

Scott: Yup.

RJon: As you would probably imagine, as you probably already know, it's better to produce $250,000 in revenue on $50,000 of labor than $250,000 on $60,000 of labor, right?

Scott: Correct.

RJon: As you would imagine, if you divide $250,000 divided by $60,000, your labor cost ratio goes down to 4.16. The higher your labor cost ratio, the better. It means your law firm is more efficient. The higher the ratio, the more efficient your business is. That means you're making more money with the same labor cost. For example, if you divide $250,000 by $40,000, your labor cost ratio goes up to 6.25. Just look at this. If you gross $250,000 and it cost you $40,000, your labor cost ratio is six. If you do it on $50,000, it's five. If you do it on $60,000, it's four. Notice that the difference between four and five is 20 percent. The difference between five and six is almost 20 percent.

This is a simple number you can keep track of. Every month, you say, "How much did we gross last month and how much did we spend on labor last month?" It's a simple number. You can keep it on a little piece of paper in your desk drawer to see, is our labor cost ratio getting better or is our labor cost ratio getting worse? Since most law firms, the biggest cost is labor, that's a pretty big canary in your coal mine telling you if your business is getting healthier or less healthy. Does that make sense?

Scott: It does. Let me ask you this question because I imagine people might be wondering. Is there an ideal labor cost ratio that you would recommend?

RJon: I want to see at least five in a law firm.

Scott: Okay.

RJon: There are times when it's going to be under five particularly if you're growing really fast and investing and training and you're bringing on some new people in anticipation of demand, but if it's much lower than five, the law firm is not going to be nearly as profitable as it should. Five is a really healthy law firm. Six gets really exciting. Four, we start saying we need to justify and explain why it's only four.

Scott: Is there a ratio where you would recommend bringing on another staff member to help continue? In other words, if you had a ratio of seven or eight, that sounds like it's really, really good, but I would imagine you could only sustain an extremely high ratio for a certain period of time before you actually need to bring on another staff member. Is that right?

RJon: Yeah, that's exactly right. When you start seeing the ratio getting too high, it's good times. Don't get me wrong. You're happy because you're generating a lot of revenue for relatively low costs. And you're banking a lot or profits. So you got to understand, you're probably running your staff at red lines. And they're going to burn out. Usually what that means is it's time to grow your staff and grow your business because you want to have -- you know, we're in it for the long term. So not just in it to make a bunch of money this year, next year, and the year after that.

We want to have a sustainable business that ten, twenty years from now, it's still profitable, and predictable, and that we can eventually you know, you wanted them to work without us having to be there. If your labor-staff ratio is too high and you're burning your staff out, you can't really go too far away from the business because sooner or later, it's going to explode. And you got to be there.

When you got a nice, quality labor-staff ratio of around five, that's a really nice profitable, sustainable. Well you see lawyers who are like really, really happy. And they're very profitable for a long sustained period of time. And they're away from their business. So you know, three weeks, a month, a month and a half out of time, with emergency actors only, their labor-staff ratio is usually somewhere around five.

All right. That brings us to normalized labor cost. So the thing that really makes it wonky to figure out your normalized labor -- your labor-staff ratio is you got to remember your firm has to pay for your services as well. Your firm has to pay for your services as well. You don't work for your firm for free. You should not work for your law firm for any less than anyone else who work for your law firm to do the same job or jobs that you do. So if you spend half of your time doing the job of a $100,000 associate, and 25 percent of your time doing the job of a $50,000 paralegal, and 25 percent of your time doing the job of a $30,000 assistant, so, then what the firm should be paying you, they should be paying you $50,000 for the job of a part time associate.

And they should be paying $25,000 for the job of a part-time paralegal. And they should be paying $15,000-- and the firm should be paying you $15,000 for the job of a part-time assistant. Not $100,000 because you wouldn't pay an associate $100,000 to come in to do the job half time. Likewise, the firm also shouldn't be paying you more. You know, it shouldn't be paying you more and it shouldn't be paying you less than it would pay an arm's length third party to do the same jobs that you're doing.

So you know, that's what you got to figure out what your part of the labor cost is and build that into a labor-cost ratio. You got to know your normalized labor cost.

Last number for today and those other numbers we could talk about. And all of this by the way is in the dashboard. All of this is in the dashboard which everyone here has access to. And hopefully, you're using it, is total owner benefit. So total owner benefits is a really interesting number. It's what I call, the "marriage saving number". This is the number that saves the marriages when you look at total owner benefits and to just W-2 income.

So you can't get a W-2 income the amount that the firm pays you as an employee. You add to it your distributions, which is everything the firm pays you because you're a shareholder over and above your W-2 income. So you want your W-2 income to be low so don't pay 15 percent employment taxes on top of it. You take the W-2 regular salary income. You take your K-1 distribution income as a shareholder. And you add together also the value of all the things that the firm provides for you because you're an owner of the business.

So for example, my firm provides a car for me. I factor the value of having that car paid for in my total owner benefit. My firm provides a cellphone for me. I factor the cellphone into the value of my total comp plan from my firm. My firm sends me on business trips. But those business trips are in nice places that I like going that I can build vacation time around. And I value that into my total owner benefit as well. So you take all of that and you factor your total owner benefit. This is what keeps marriages from getting very rocky when husbands come to wives or wives come to husbands or spouses or significant others, come to their significant other and they say, "You're working your ass off and we don't have a whole lot of money in the bank account." And you say, "I know we don't have a whole lot of money in the bank account. We've been growing the firm by 50 percent year, on year, on year, on year, which is taking a lot of capital. But the firm is paying for our cars. The firm is paying for most of our meals. The firm is paying for our vacation. The firm is paying for our cellphones. And a whole bunch of other things, which a good CPA will help you strategically structure in a way that 100 percent legitimate and above board. And nothing shady about it.

So Scott, these are the six numbers, gross revenue, cost of goods sold, gross profits, revenue and labor-cost ratio, normalized labor cost including the cost of labor for the owner doing the job -- doing the jobs that you do for working for your firm. And last is total owner benefits. I'm now available to answer some questions.

Scott: Yeah. So let me do this because Evan has emailed me - one of members, Evan. And he asked the question, "Define the net, the net profit of the business." So and we're talking about these numbers. How do you character a net profit?

RJon: Gross revenue, less costs, equals net. Gross profit, less costs, equals net. A million-dollar firm has $500,000 -- has $700,000 in costs. Let's say a million-dollar firm has $800,000 in costs. After everyone's paid, employees are paid, vendors are paid, all the bills are paid. All the bills are paid. The rent is paid. The insurance is paid. Everything's paid. There's $200,000 left over on a million dollars in gross revenue. The net profits on that firm are $200,000.

Now part of that $800,000 in costs is maybe a $150,000 in salary for the owner. So the owner might be taking out $350,000. But a $150,000 of it is labor costs. And $200,000 of it is actual real net profit. Net profit technically is money you earn just strictly for being a shareholder.

Scott: So using the definition of the total --

RJon: [Inaudible 0:57:48].

Scott: Yeah. So using the definition of the "total owner benefit", your costs include your W-2 income. And your costs also include the value of everything the law firm provides for you, which then would equal your net. The net does not include your profit distribution.

RJon: No, no, no.

Scott: Is that?

RJon: No, no.

Scott: No? Okay.

RJon: It's the other way around. You have a million-dollar law firm. Gross revenue is a million dollars. You pay the rent. You pay the insurance. You pay the marketing. You pay the staff. You pay the whole staff including yourself. The firm has $200,000 left over. That $200,000 left over is the net profit. You as the owner of the firm may have more than $200,000 of total owner benefit because you've got the $200,000 of net profit plus you pay yourself $150,000 salary, plus the firm paid for your car, and your cellphone, and you're insurance, and a whole bunch of other stuff.

So your total owner benefit is usual going to be more than the net profit of the firm. Because the net profit of the firm is part of the total owner benefit.

Scott: Got you.

RJon: Don't get caught up on the definition. Just follow the concept. The concept is the total benefit to you of owning this firm is everything that the firm does for your life. Which is your net income, the job it gives you and all the stuff you get to run this business. It's total. You got to total it all up. To be honest with yourself about the real benefits of owning the firm. Because otherwise, what happens is every once in a while, we get someone who says, "Screw this. I could just go get a job working somewhere else and made more money than this place is giving me."

And we say, "Yeah. You know what? But say goodbye to your car. Say goodbye to your house insurance. Say goodbye to your cellphone. Say goodbye to your travel. Say goodbye to all these other things that you run through the business." And they're like, "Holy crap. That job doesn't look so good anymore." All right? So what's next?

Scott: Sounds good. All right. I'm going to invite our operator on the line, Shane. And Shane, if you would, come on the line. Give everyone instructions on how to get in the cue. If you have a question and you would like to ask RJon directly, Shane will give you instructions. And what will happen is, is your phone line is going to be isolated. You're going to be brought on to the call with RJon and myself. You'll be able to ask your question directly to RJon. You guys are going to be able to talk back and forth.

Meanwhile, everybody else will be able to hear your questions and learn from your questions. So this is great opportunity for you to get your questions answered but also learn from the questions that everybody else is asking. So Shane, if you would, come on the line. Give everyone instructions. And then RJon, while he's getting everybody in the cue, I've got a couple more questions that have been emailed in as well.

Shane: And certainly, this time and throughout the call, if you have a question or comment, simply hit "*'" and the number "1" on your phone to enter the question cue. Press "*" and the number "1". That will get you into the question cue. We'll take those questions and the order they are received.

Scott: Okay. So if you have a question, Press "*1". And Shane, our operator will isolate your phone line, bring you on to the call with RJon and myself. And RJon, while Shane is gathering the questions, I want to ask you a question that somebody actually posted in the forum. Claudia posted this in the forum.

Her greatest challenge right now. She is considering hiring a new staff member and hiring a legal secretary. She placed an ad out there. And she's really looking for somebody who's going to do maybe about ten hours a week, pay $15 an hour. And do legal tasks. She says, "Yeah. I keep on getting resumes from law students or other lawyers." Should she consider those resumes or ignore them? She says, her gut tells to ignore them because she just truly needs a secretary. But she doesn't need any legal help at least for now. Of course, she doesn't know if she's being short-sighted or what. So she's just looking for some general direction when it comes to staffing.

RJon: That's a tough question. And it really requires me to ask some to qualify the questions because depending on a number of factors that I don't know about based on what she -- what you shared. And my answer could go one way or another.

Scott: But why don't we do this?

RJon: Most of the time, in my experience -- most of the time in my experience --

Scott: Go ahead. Yeah. Sorry.

RJon: Most of the time, in my experience, when a lawyer is looking for a part-time position like that, they would be much better off hiring a full time position like that. And most, in my experience, most of the time the reason they're not looking for full time is because they don't really have a good marketing strategy. And if you had a better marketing strategy, the more confident -- you get more confident in your marketing strategy and you knew that the business was going to keep growing, you wouldn't really want to mess around with a part-time person. You want to just get right to a full time person.

Which brings you in the contact with a completely different pool of candidates than when you start looking for a part-time people, usually better people because they're looking for a full-time real job. Next, unless you are already - and I'm speaking to Claudia - unless you already really, really, really efficient with your own time, which most of us are not, you are probably wasting a lot of your time doing things that your part-time secretary could free you from and do full time for you.

So for example, the tax strategy workshop, we went around the room meeting -- but this isn't a tax strategy thing. It just suddenly came up in the conversation. We went around the room and everyone around the room was billing somewhere north of $300 an hour. And everyone in the room sort of bills their exercises figure that they're spending about ten hours a week doing stuff themselves that an assistant could do for them. And only three of the ten people have assistant. And so we kind of figured it out. And we realized that every one of them is basically ten hours a week, at $300 an hour, is $3,000 a week. $3,000 a week, 46 weeks a year, that a lawyer could be you know, generating that production. 300 times ten is 3,000, times 46 weeks a year. It's $138,000 a year.

So you know, if your part-time person could be there and free you up ten hours a week to be more productive, and that might be productive because you're billing those ten hours or it might be ten hours a week that you're dedicating for marketing to bring in more business. Or ten hours a week following up those former clients or people who came in to meet with you but didn't hire you to trigger more business. The point is, you can generate $130,000, $140,000 a year of extra revenue. It starts making a lot more economic sense to start thinking in terms of a full-time secretary rather than a part-time secretary.

That's part of my answer to that question. The other part of my answer to that question is a law student who wants to come and be a secretary, I mean, that suggests that the law student - unless the law student has been a secretary before - the fact that a law student is purporting to be able to do the job of a secretary, just because it happens to be a secretary of a lawyer, just because it happens to be a law firm, suggests to me that the law student really has no idea what the job of the secretary actually is. Because law school does not train or prepare us to do the job of a secretary.

So I would not -- you know, and I understand why law students want to be secretaries for lawyers. They think they're footing the door. But I would not want a law student or a lawyer to be my secretary unless that person has been a secretary before. My executive assistant didn't go to law school, doesn't practice law, couldn't be a lawyer. I mean I guess she could have been a lawyer if she went to law school. But she doesn't have the skills that train to be a lawyer. But I don't think there's one lawyer out of 10,000 who can keep up with her and do what she does for me. They're just two completely different jobs.

Scott: Yep. All right. Again, if you have a question for RJon, press "*1". Right now, we don't have anybody in the cue. But I know you guys are on the call here. So press "*1". And your phone line will be isolated. And a couple more questions that have been emailed into me. Or you want to email your question to me, you can do that as well. If you didn't want to come on the line, I will keep it anonymous and won't identify you. But other by your first name. scottwhitaker@howtoMANAGE.com is my email. So if you want to email your question, you can. RJon?

RJon: I just want to say if you email your question to Scott, you don't get the benefit of asking your immediate follow up question. I don't have the opportunity to ask you for clarification or additional details to give you a more specific answer. You get a lot more from us having a dialogue around your question. So you don't necessarily get a few -- if you just email it in. But I understand some people aren't in a place where they can't speak. And you got to settle for email, but that should be your second choice. And Scott, just so you know, I do have to jump off the call at 2:15.

Scott: Okay. So Jonathan says, "I'm 27 years old. I've been watching the video that you've been doing recently on the "30 Days Away". I haven't started my own law firm yet. I'm working for someone else. He goes on, he says, "How long should I be working for someone else before I start my own firm? How many years of experience should I get before I go out on my own?"

RJon: So like this. If you graduate from law school, and you invest let's say seven years, you know, five to seven years learning the practice of law, and then decide to start your own law firm, you're going to be -- you're going to have seven years, five to serve years of legal proficiency and experience. But you're going to know nothing about the business of running a law firm. And in your fifth or seventh year of practice, you're going to be like becomes like a [inaudible 1:09:27] at the business or running a law firm. And then maybe take you five or seven more years to become really proficient at the business of running a law firm equal to your legal proficiency.

So you spend five years learning how to practice law, to become a really a good practitioner, and then you spend five more years leaning the business of running a law firm. And after ten years, you now got you know, after ten years, you've got maybe six or seven years of practice and maybe three or four years of business. And you'll notice, my math isn't exactly working. And that's because when you're running the business and practicing law, you're not really practicing law full time. And you're not really running the business full time. You get what I'm saying here, Scott?

Scott: I sure do.

RJon: So this is the strategy that most lawyers take. They say, "I got to learn how to practice law first. And then I'll open my own law firm." However, you got to keep in mind that the business of running a law firm is very different than the job of practicing law. So the strategy that some lawyers take is they take the strategy of, "I'm going to practice law for maybe just a year or two, just to kind of learn my way around it. Or maybe I'm going to come right out of law school and open up my own law firm. And right from the beginning, I'm going to leave my ego at the door. Right from the beginning, I'm going to leave my ego at the door and immediately start hiring people who are better lawyers than me. And I'm going to start working on becoming the best business owner, the best owner of a law firm business that I can be."

That lawyer, that person comes out of law school on day one. Get busy with a business plan and a marketing plan and a sales strategy and everything else. They begin doing very, very simple areas of the law that you can do without a whole lot of experience just to jump start the process. And then they immediately hire a lawyer who is better than them. And now, they've turned their marketing and their sales to marketing and selling the level of service that this other lawyer, who's better than them can do.

And the good thing is, that lawyer is not distracted, the lawyer who -- the better lawyer is not distracted with any of those challenges of marketing, managing, and running the business of a law firm. That lawyer's just cranking up the work, cranking up the work, cranking up the work, cranking up the work. And because you're getting a five times ROI on that lawyer in terms of the labor-cost ratio, pretty soon, you can afford to hire a second attorney and keep improving your marketing and keep improving your systems. Now you got two strong horses pulling your wagon. And you're running the business.

Fast forward five years, maybe you've got five lawyers working for you. Maybe each lawyer is generating 1,300 hours a year. And let's just say you're doing hourly works. Now you got 1,300 hours a year times five lawyers. That's 6,500 hours a year. Let's say each of those lawyers is billing because they're all better than you. And you're hiring real grown up, experienced attorneys who just don't want to get involved with the business of running a law firm. Their content to just have a job. While you're an entrepreneur. You want to run a business. So let's say they're each billing out at 350 an hour. So 6,500 hours a year times 350 an hour is a 1,750,000 law firm.

That's where you're basically sitting on a two-million-dollar law firm with five lawyers pulling the wagon for you. You're probably pulling about $400,000 to $500,000 a year out of the business.

And you know, you're only five years out of law school. Now of course, you run the risk and it's almost a guaranteed assurance -- or it's not really a risk. A risk is where you have the chance that maybe it will, maybe it won't. This is almost guaranteed that a lot of lawyers in your local market are going to be talking lot of shit about you. "Who the hell does this you know, what's behind the ears, up star thinking he or she is having a two-million-dollar law firm when they just graduated law school five years ago. I'm twice the lawyer he is. I'm ten times the lawyer she is."

Say the lawyers who have five or ten years of experience at the practice of law. But zero experience with the business of running the law firm. So it's not revenue.

Scott: Hey, RJon --

RJon: Not everyone can take the heat.

Scott: RJon, we got -- I'm going to be respectful of your time. We do have two people who are in the cue to ask questions.

RJon: Okay. So I'll go a little bit late. I'll go a little long.

Scott: I just want to be respectful. So Shane, if you would bring Evan on to the line. And Evan, when come you on the line, immediately ask your question to RJon. And we'll go from there. Thanks.

Shane: Evan, your line is open.

Evan: Okay. RJon, thank you. We met before. Thanks for answering part of my question. Can you hear me?

RJon: I hear you.

Evan: Okay. Great. So my question had to do with how do I know the net profit? So I'm a solo practitioner. And I don't take a W-2. So when I posed to question to Scott, I was asking, "Do I consider", and I think you partially answered it, "Do I consider what I'm putting in my pension, what I'm paying on my medical, what I am taking at the end as my true net? Or am I taking it out up front and saying, 'Whatever is left over after all my expense is my net?'" I hope that's clear.

RJon: Yeah. It's clear. And I'm not trying to give you shit. I just came out of a three-day tax strategy workshop with two tax attorneys, two CPAs and my CFO, all there with me. So can I just give you some friendly advice? I don't know who you are. I don't know your last time. Don't tell me your last name. Please stay anonymous because I don't want to get yourself in trouble. Can I ask you a few things?

Evan: Absolutely. And you have before.

RJon: Okay. You're not paying yourself a W-2?

Evan: Correct.

RJon: Right?

Evan: Correct.

RJon: Are you sole proprietor, LLC? What are you?

Evan: Sole proprietor.

RJon: Okay. Number one. You're getting royally screwed on your taxes because you're a sole proprietor. The tongues in the doctrines, you can't take as a sole proprietor that you would be able to take if you were an LLC or a C Corp. So you're getting bad tax advice. Maybe no tax advice. Number two, because I think you're getting bad tax advice or no tax advice, and you're missing probably thousands of dollars in deductions that you could get if you were incorporated properly, I think you're also setting yourself for another problem which is you're not paying yourself a W-2. Which is a red flag. So I'm going to speak in terms of when you get your business set up properly. And you get yourself set up as an LLC or a C Corp.

And you start paying yourself a W-2. You have got to start doing that because it just -- you just got -- you're missing out on too many tax advantages and you're putting yourself at too much risk to justify not taking care of that.

Even: Okay.

RJon: So we agree you're just going to do it?

Evan: Okay. Well first, I need to talk to a good CPA. But, yes.

RJon: Okay. So you take your gross revenue. What was your gross revenue last year?

Evan: A little over six.

RJon: $600,000?

Evan: Right. About 605.

RJon: Okay. You take your $600,000. You pay your rent. You pay your insurance. You pay your advertising. You pay for all your professional services including your CEO, your bookkeeper, your accountant. All your professional services of your employees. Your marketing expenses. All of those things. Your labor cost. You got a paralegal. You got a receptionist. You got a secretary. Maybe you have an associate or two. All of those costs. Including you pay yourself a regular salary for the job do for the firm. And then what's left over is your net.

Evan: Okay.

RJon: Got it?

Evan: Got it. And my pension contribution from my LLC can go in there?

RJon: Hang on. It gets a little bit wonky here which is why you shouldn't go around comparing yourself to other law firms. Because you get to artificially increase or artificially suppress your net based on different tax strategies you may use. But conceptually, that's what your net is. So I might have the $600,000 law firm. And you can have a $600,000 law firm. And it could be identical in every way possible including all of our costs, and expenses and everything. Except you're going to say, you have a $120,000 net. And I'm going to say I only have a $100,000 net because my tax strategy helps me run $20,000 to the business that you haven't thought about which puts $7,000 extra in my pocket that you don't have.

Evan: Got it.

RJon: Do you have a follow up question?

Evan: No. I think you went to that again.

RJon: Okay. Yeah but I'm really -- I mean like I don't know u. You don't know -- I mean, you said we met. But I don't -- I apologize, I don't know you. I'm not saying anything because I have any specific client knowledge about you. You got to get that thing incorporated LLC or C Corp. And your accountant should be keeping your ass to get this done. And to the expense that he or she is not, that makes me very concerned about you, the rest of the tax strategy advice that you're getting. So for example, your accountant should be sitting with at the beginning of the year to say, "What is our plan going to be this year? On a $600,000 firm, there's probably $10,000 to $20,000 a year in savings that you can engineer into the business, but not up-to-date until the end of the year to do it. I hope that helps you.

Scott: All right. So Evan, I want to thank you for your questions. Shane, we'll bring on our last question. Martin. We'll take Martin. And then out of respect for RJon's time, RJon I appreciate you're going late with us today. We'll dismiss our call. But Martin. Shane, go ahead bring Martin on, please.

Shane: Martin, you're --

Martin: RJon, hi! It's Martin here.

RJon: I know you, Martin. How are you?

Martin: So it's just a reflection on the pricing conversation that's from escalation up from one to four. So that the start comparison there, the going rate is just using the best value. So we definitely have moved up that sort of scale like the last three, four years. And this was between strategic and value-based. And the challenge we're seeing is twofold. One, there's the education of the clients or the prospects and two, it's about persuading the lawyers and that actually value-based is actually far better for them and the firm in the long term. So that is I guess the question was moving the staff along that sort of scale and getting to understand that value-based is the way forward. I think that needs to come before dealing with a client is probably my -- or the prospect, is probably my learning. And any sort of insights to that?

RJon: Yes. So there's two approaches. One approach is you -- how do I say this? There's generally three different kinds of marriages. And I promise you I'm coming back. This is relevant. You'll see I'll connect the dots. And none of these are better or worse than the other. And you see people married for decades, very happily with either of these three strategies. But we kind of have to pick a strategy to make it work.

One strategy is the strategy where each of the spouses keep their business separate from their personal life. You got your business. You got your career. You got your money. I got my business. I got my career. I got my money. And we don't tell each other too much about what's going on in our business, in our career, with our money. You know, that's the typical stereotypical usually it's the husband who makes the money. And says to wife, "This is how much we got to spend." And the wife spends the money. And if the husband is having a bad month, you swipe it from the [inaudible 1:24:33]. And I know that's very sexist. But that's usually -- that type of approach is usually where the man is making more money than the woman. Does that makes sense?

Martin: Yep.

RJon: Second strategy is we work together. We are real partners in this business. We are real partners in our careers. My wife is legitimately the CFO of our business. We don't separate anything. She knows everything. I know everything. We're true partners in every sense of the word. That's the second approach.

And then the third approach is sort of a blended approach. And the blended approach is, I run my business. But keep you informed about the things you need to know about. That's for example the lawyers who runs his or her own law firm. And then meets with the spouse or significant other once a quarter or once a month to go over the financials. So they understand the big picture of what's going on with the business. Do you understand these three different strategies and approaches I'm talking about?

Martin: Yup.

RJon: Okay. Now, staff, there's the approach where you tell your staff, "I pay you this much. You do these jobs. You don't worry about how much I'm making off your labor. Whether I bill you by the hour or bill you flat, it really doesn't matter to you. You just do the work. And the fact that I'm asking you to account through your time is a management technique that I'm using whether I choose to bill by the hour or not I'll by the hour. It really is of no concern to you. That is the approach I say to How to MANAGE a Small Law Firm. That's the approach Scott and I take with the All Digital membership.

We give all of you the benefit, the predictability, the convenience, the peace of mind on a flat fee per month. You pay X amount per month. You don't worry about the fact that some months it costs us more, and some months it costs us less to deliver the same service. We take that responsibility in managing our business. I've got 25 CEOs, COOs, CFOs. They're the equivalent of lawyers in a law firm. I got the equivalent of a 25 lawyer firm. I pay them what I pay them. And they don't really concern themselves too much with a lot of my costs and my expenses. And that gives me -- that earns me the right to make the profit that I make. I shield them from all of that.

Another approach is you know, the "We're all partners. We're all in this together. Kumbaya. Let's meet in the middle of the night and sit around a tree and you know, beat on drums together. And you know, I'm going to share everything with everyone. And you know, tell you all my numbers and my ideas and my strategies and my fears, and my concerns and my hopes and my dreams. And all that kind of stuff. And that really misses the point of understanding that employers and employee are very, very different creatures.

I believe every employee has the potential to evolve into an entrepreneur. I see that potential in everyone. Sometimes to my detriment. But I see that. With that being said, most employees have not yet evolved into being entrepreneurs. They have not chosen to take the journey of personal growth and personal development and personal responsibility and education. And I don't mean school education. I mean, educating by how business works. That we do to really be full-functioning entrepreneurs.

And to share too much about or too many things with them is really not fair to them. It just scares them. And there's the blended approach. The blended approach, which I think is probably more accurate to say that I think the blended approach is How to MANAGE a Small Law Firm, where I share the part of the numbers and the parts of the strategy and the parts of the profit, and the parts of the pricing strategies with them that are relevant to them. And I don't bother them with the rest. That's really the more appropriate -- that's really a more accurate way of saying the way I do it. We didn't just say it's better or worse. I'm just saying it's the way I do it. So you know, your employees are more comfortable billing by the hour is what I think I hear you saying. Correct?

Martin: Yeah. I mean, yeah. But they're more comfortable for a fixed price. We are offering fixed price rather than a value-based.

RJon: Wait. They're more comfortable with fixed price to they're more comfortable [inaudible 1:29:45]?

Martin: So we don't bill by the hour. Never have. We've always billed by the fixed price. We're moving some of the prospects on to value-based billing. So the discomfort from moving fixed pricing to a value-based concept for them.

RJon: Got it. Okay. So give me an example of a value-based bill structure that you would move -- that you give your clients the opportunity to move to [inaudible 1:30:12] has a problem?

Martin: Okay. So if there was a small business purchase and you know, we are charging U.S. Dollars, $10,000. So that service start to finish the fixed price and take the bumps on the road and again, the fixed price. That's the old approach. The alternative is to share some of the risks. But factor some milestones or some from deal value fluctuates for the client who's buying the business. If we do -- if we achieve this price for these conditions, we feel we've saved you, gained you this value. So it's benchmarking that. so we might end up with between 5k and 30k versus [inaudible 1:31:08] depending what milestone we hit.

RJon: Right. And the staff is uncomfortable with this I imagine because of two things. I imagine one, they're uncomfortable because they're just uncomfortable with change, "Because this is the way we've always done it. And this is new." So that's new. And the second thing I think they're probably uncomfortable with is. "What justifies us making twice as much money as we used to make?" You're taking advantage of the client. Am I right?

Martin: Yeah. I think it's that, and not knowing how to explain to the clients you know, why X means we should get Y. And you know, whilst we pull some of that selling for the prospect so that the non-lawyers, yeah, there's still left of the [inaudible 1:31:55] having to justify to the client once the job is on the way. Why we're hitting or not hitting this particular value milestone.

RJon: So first of all, I think you do have non-attorneys meeting with the prospective clients to sell those in the first place.

Martin: [Inaudible 1:32:13]. Yeah.

RJon: Okay. Good. And I think those non-attorneys should stay on the case on case managers to maintain their conversations and communications with the client. And the lawyers really shouldn't be involved in those conversations at all to the extent you can prevent it.

Martin: That's interesting because it's actually started out to do with that a handful of jobs in the last quarter. And it has the person that sold that service in actually run though from start to finish with that client alongside the lawyer. And almost being the client to contact rather than the lawyer. So almost [inaudible 1:32:50] relationship.

RJon: You're going to find lots and lots of benefits. Here are a few of the many, many benefits of doing it that way. Number one, the lawyer doesn't get distracted from doing productive work because the client interfaces with the non-attorney. The client service manager would protect and shield the attorneys from the distractions. Number two. The client service manager who's the one who originally sold the job in the first place, the non-attorney client service manager who sold the job in the first place, understands the nuances and a million little things that are involved in the deal that the lawyer doesn't really understand.

So when the client has a problem, they go back to the person and you know, all those nuances are part of an ongoing smooth relationship which prevents a lot of things [inaudible 1:33:41]. And number three, and this is a very significant thing. At least here in the United States, we see very, very predictability -- when a law firm gets to around a million and a half dollars, usually someone tries to stage a coup in the firm and take over the firm or steal a bunch of clients and go out on their own. It usually happens around a million and a half dollars. And structuring it the way that we're talking about structuring it now insulates and protects you from anyone staging a coup because the non-attorney can't service the client by himself because he's not attorney.

And the attorney can't steal the client because he's not the one that's got the real relationship with the client. It's the non-attorney who does. Does that make sense?

Martin: Yeah, yeah.

RJon: Plus. In most cases, I imagine the non-attorney is going to probably cost you less than the attorney. You get better labor-cost ratio.

Martin: Yes. That's right.

RJon: With that being said, let me tell you. If the non-attorney salesperson/client service manager was making twice as much as any of the attorneys in the firm by earning it, that wouldn't be a bad thing.

Martin: I think where we're seeing the benefit of having the non-lawyer, non-attorney in there is the project management of the transaction. And the lawyers I don't think are great project managers. And most of the success of getting at the transaction through quickly is that how it's managed. Yeah, and I imagine you have the policies. And to me, the non-lawyers are better of doing that than the lawyers.

RJon: Agreed on all accounts. That's my answer for you.

Martin: Good. Thank you very much for that.

RJon: And everyone, last thing – Scott, last thing I'm going to say and I'm going to seriously jump off the phone five minutes ago is this question and everyone else's question, I will be on the forum. Scotts on the forum. These are great things to post on the forum. And you don't even have to wait for the monthly live call. You can go have these questions answered on the forum in between. And [inaudible 1:36:07].

Scott: RJon, are you there? Did we lose you?

Male: He's there. But his mic got suddenly much quieter.

Scott: All right. RJon? Okay. We may have lost RJon there. I'm not sure what happened there. But he's in the middle of talking about the forum. RJon, are you there? RJon?

Male: He is connecting [inaudible 1:36:43] the mic from. There you go.

Scott: Okay. There you are RJon. We lost you. You were talking about the forum.

RJon: Yeah. I was saying that I just wanted to point out that the forum is a great place to post your questions in between these monthly calls. I'm on the forum. Scott's on the forum. As the group grows, the forum will start to become a better and better and better resource for each other to help answer each other's questions, not only for me and Scott. And I hope everyone will recognize that being on this calls and lining up to ask your questions will give us the opportunity to give you more dynamic answers.

We can even -- if we get to the point where we get enough interest in Q and A, we can actually have two calls. One call can just be lesson that we can use the whole time to just teach a lesson. And then we could use a whole other call to just answer your questions. But Scott, I seriously -- Ale just walked through the door. And I basically getting a death stare. So I got to go. Bye. Thanks.

Scott: All right. Well, thanks, RJon. I want to thank everybody for being a member. As always, keep an eye on your email because I'm going to take this call. I'm going to get this transcribed. And I'm going to get the recording from Shane. I'm going to put it in your membership site. And so you have access to it there. And then keep an eye on your mailbox because you will be receiving your monthly member's bonus chip. Everybody, except for one of our members, you just had something going recently. So you should receive the big binder already to be able to chat a log everything that you're going to be seeing from us.

So it will sit nicely on your shelf. Everything will go into that binder. And just our way of saying thanks for being a member. We want to deliver that monthly bonus to you every single month. Calls let you know other things that our going on with How to MANAGE a Small Law Firm. So thank you for being a member. Everyone, thanks for being on our call live. Those of you who are there with us today, if you're listening by way of CD or the membership site, I want to thank you as well for being a member and allowing us to help you ultimately help more people.

So I thank you. And thanks, Shane. On our operator. We had a great call this time. Thank you for making everything happen back there in the background. So everyone else. Have a great day!

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