Ep #70: Profit First for Lawyers: A Conversation with RJon Robins

Full Episode Transcript

With Your Host

John E. Grant

Ep #70: Profit First for Lawyers: A Conversation with RJon Robins

Profitability for your law practice isn't just about making more money for the money's sake. It's really the essential first step to a balanced and sustainable legal business. Today, you'll hear my conversation with RJon Robins, founder of the law practice consulting juggernaut, How to Manage a Small Law Firm, and author of the book *Profit First for Lawyers*.

RJon and I share a core belief that law firm owners need to take profitability seriously if they want their practices to truly serve their clients, their communities, their teams, and of course, themselves and their families. We also agree that the way most law firms go about calculating profitability is not the best way to do it. But as you'll hear, our personal styles are pretty different, and you'll get a chance to reflect whether one approach or the other resonates more with you. Either way, I hope you'll come away from this episode with a heightened resolve to put profitability at the forefront of your law practice improvement efforts.

You're listening to the *Agile Attorney Podcast*, powered by Agile Attorney Consulting. I'm John Grant, and I help legal professionals of all kinds build practices that are profitable, sustainable, and scalable for themselves and the communities they serve. Ready to become a more Agile Attorney? Let's go.

John: Welcome back, everybody. I am really excited to bring onto the podcast a guy that I have known about for as long as I've, I think, been around the legal industry, which is coming up on twenty years now, eighteen anyway. And I think he and I have orbited around the same groups and peoples for a long time but have never had a chance to actually sit down and talk face-to-face, or at least screen-to-screen in this case. But RJon Robins, welcome to *The Agile Attorney Podcast*.

RJon: Thanks for having me, John. I appreciate being here. I thought you were making reference to my gray.

John: Yeah, well, I just had a haircut, so I got all mine cut off, but it's in there too.

RJon: This is a twenty-day road trip.

John: Very nice. Hopefully an exciting one. Well, and one of the things that I know about you is that you value your personal time and you've got your business operations and everything else dialed in to such a point that you get to protect that personal time and get to go have those adventures.

RJon: Everyone can protect it. And to the extent that any law firm owners are listening to this and you are saying to yourself, I have to get XYZ done before I can start protecting my personal time and having a life, I promise you it's exactly the other way around. It's not until you make the decision that yes or yes, I'm going to protect my personal life and I'm going to protect my time, that your law firm will then begin working for you. So, my calendar is right behind me. I've I've got the next eighteen to twenty-four months planned at all times.

John: Yeah.

RJon: And the very first thing I do when I lay out my calendar and I revise it every quarter, very first thing I do is I drop the boulders into the river. And the boulders are my personal. Put that in first and make everything else work around your life, and it does. It will.

John: Well hold that thought because I want to get back to that. I want to dive in first because I you wrote a book called *Profit First for Lawyers*, and it's based off of, or at least it's a for lawyers version of a book that is popular in the broader business world called *Profit First*. And I Michael Witz, is that how you say his last name?

RJon: Mike Michalowicz wrote *Profit First*. And I read *Profit First*, and then I called and spoke to Mike's business partner. And yeah. I don't know if I'm allowed to curse on your podcast. I forgot to ask that.

John: I guess I don't have an E rating, so I can I can beep you out if you need to.

RJon: Well, the first thing I said was like, Mike wrote my fucking book. I and to Mike's credit, to his great credit, because a lot of people don't give credit for their ideas. Mike acknowledges that he did not invent the idea. He just was the first person who wrote a book that explains the idea in great terms.

Anyway, the point I'm making is, I became friends with Mike and Ron who run Profit First for Lawyers. I'm a huge fan of using a Profit First certified professional. Our bookkeeping business that we also own, which is a whole separate thing, is full of Profit First certified professionals. And when Mike asked me to write the book, I was really kind of confused about how to write it because I didn't want to just do one of those search and replace, you know, business, and call it law firm, right?

John: So, what it ended up being is, yeah, there's E-Myth and then there's the E-Myth for Lawyers. And it's basically the same book just with lawyer language in it.

RJon: This is not that. This is completely not that. This book is designed to empower, embolden, enlighten. If you've never read *Profit First*, if you're not implementing Profit First, this is the book to convince you that your future self, you're going to wake up ten years from now and either be really grateful that you embraced and started using Profit First, or you're going to wake up ten years from now kicking yourself, why didn't I do that? Look at all that missed opportunity that you'll never get back.

The book was also written for the lawyer who, the law firm owner, I should say, who has read *Profit First*, and you want to implement Profit First, and you find that your bookkeeper, your accountant, your professional legal administrator, all of your advisors are fighting you on it, and they're fighting you on it. And this book is designed to give you the ammunition, the explanation, the plain English explanation for why you need to take all your excuses, shove them up your ass, and protect my profits first.

If you call my CFO, the chief financial officer of my business, and I've got multiple businesses, and if you call the CFO of my businesses and you ask him, what happens the very first month he doesn't protect my profits first, he will tell you he will be fired. He knows that is a firing offense. There is no second chances. It's too important to my future, it's too important to my family, it's too important to my clients, it's too important to my employees. Everyone needs me to protect my profits first. And my chief financial officer knows that is a top, top, top priority. And I only wish that I had begun doing it much, much sooner.

John: Yeah. And I can testify to it. I adopted Profit First probably five years ago, give or take. And yeah, it drove my banker crazy by opening up a whole bunch of accounts, as was recommended in the book. And I should say, right, to get back to it's not a new idea, it's effectively the envelope investing method or that the envelope saving method that was a personal finance tool. And it's much deeper than that, but it's taking that envelope method and extending it into the business world and allowing you to basically set your financial priorities for your business in a way that aligns with your personal goals, your personal needs, and also the growth and the needs of the business.

RJon: Yeah. So I wrote the book. I mean, basically, so Mike asked me to write the book. And so the book starts off by saying, if you haven't read *Profit First*, you still need to read *Profit First*, right? This is not a recap of *Profit First*. So there's like one chapter at the end where I do a little quick summary of *Profit First*. But the rest of the book is all really about why law firm owners have their head so screwed up backwards, upside down, inside out, and up their ass around this concept of Profit First, where it comes from, and how to untangle it. Because once you untangle all of this stuff, it just becomes so blindingly, obviously simple that only a moron wouldn't do it, right?

It's just really simple. The problem is it's all confused and tangled up and twisted around with all of these myths and rumors and legends from who knows where. And so the book untangles all of that. You wouldn't want your spouse or significant other to get their hands on my book if you're not already doing Profit First because they're going to beat you with it until you do.

John: And it's a hardcover too, so it's going to hurt. Yeah, that's right. I can give you two bits of reflection. I mean, one, longtime listeners of my podcast hear me say this in every week in the intro, they will have heard it by now, but my mission statement reads that I help legal professionals build practices that are profitable, sustainable, and scalable for themselves and the communities they serve. And I've used those words for a long time, but I didn't used to use them in that order. And I eventually woke up one day and thought, oh, duh. And it was actually through work with one of my clients that actually is a continuum, right? That if you are not profitable, by definition, you cannot be sustainable. And if you are not sustainable, you cannot by definition be scalable because you'll scale something that's just going to going to tear you apart.

And so, part of what, you know, really resonates with me with, again, the Profit First method overall, with your expansion and explanation of kind of why lawyers, well, and the other thing and my listeners know this, I'm a fourth-generation lawyer. I come from a family of lawyers, and I love my family dearly. But part of why I do what I do is so that my clients don't have to become miserable bastards like some of the members of my family who practiced law their entire lives and never could quite get it together. There were some great ones too. I'm not saying all of them, but it's a very personal thing for me.

RJon: So let me tell you. I started at the Florida Bar. I mean, I'm an attorney also. I went to law school, blah, blah, blah, right? And then I ended up as a small law firm management advisor with the Florida Bar's Law Office Management Assistance Service. I started back in 1999 doing that. And I have worked with, and this is a documented fact, I've worked with tens of thousands of small law firm owners all across the country. When I left the Florida Bar in like 2001, I think it was, when I mean when I left is I stopped working for the Florida Bar as a small law firm management advisor, I'm still a member, obviously. By then, I had already worked with over nine thousand lawyers in every aspect of starting, marketing, managing, buying, selling.

And here's the thing, fifty-four percent of the bar grievances that are filed nationally, not just in Florida, but nationally, fifty-four percent of the bar grievances that are filed nationally start off, they're caused by, if you trace it all the way back to the original seed of the problem, the seed is a law firm management problem, which most of the time is a profitability problem. Unprofitable law firms lead to bar grievances. Unprofitable law firms lead to attorney burnout. Unprofitable law firms lead to unhappy lawyers. Unprofitable law firms lead to clients getting screwed. Your clients and your family pay the price for your unprofitable law firm.

I actually believe that we as attorneys, we as law firm owners, have an ethical obligation to run a profitable law firm. Because if you're not running a profitable law firm, you are putting your clients at a great disadvantage in more ways than we could cover in just one episode. I'd be happy to elaborate if you want, or we can move on to the next topic.

John: Let me dive on that just a little deeper, because I agree with you. And the reason why I agree with you is that lawyers that aren't and law firms that aren't taking profitability into account wind up taking on too many matters.

RJon: One of a long list of problems. And that's not the only one. There's worse problems than that.

John: Fair enough. As you and I said before we got on the recording itself, I work mostly in the delivering the work pipelines in terms of the lawyer workflow. And the biggest challenge of the delivery pipeline, it's interesting. You've probably heard of the Lean concept of waste, right? We talk about in Lean, Lean Six Sigma. And everyone thinks, okay, waste. And the form of waste that everyone thinks of intuitively is underutilization of resources. And that's true. That is a form of waste. But rarely is that the primary form of waste that I see, at least in the law practices that I wind up working with.

Another form of waste out of the Lean methodology is overburden. And the third form of waste is unevenness or inconsistency. And one of the reasons that I think, again, tying back to profitability in my piece around…

RJon: Can I put this in less politically correct terms because it's not my podcast and it's okay if the audience doesn't like me?

John: Sure. Yeah, go for it.

RJon: You're defrauding your clients. It's fraud in the inducement. When you accept an engagement, when your law firm accepts an engagement from a new client and your law firm is not profitable, or your law firm is not on its way to being more profitable, or you don't have a real plan for how to get your law firm to be profitable, you are defrauding your client. You are inducing the client into a contractual relationship by withholding material information, right?

Think about this. Lawyers go to market with their marketing, right? There's always this, you know this phrase like, I'm a tough badass. You can trust me. No. If the lawyer is sitting there in the deposition and they don't know how they're going to pay their freaking mortgage at the end of the month, don't try to pretend like you're some badass. You are a scared child with an inner voice going on that's distracting you from what's going on in that deposition. If you are sitting there in a negotiation settlement on behalf of one of your clients and you don't know how you're going to make payroll at the end of the month, you are not being the best version of yourself for your client.

If you’re at a hearing and while you're in the hearing, you're not sure if your car is going to be there when you get out or if it's going to get repossessed, you shouldn't be there. I'd rather my lawyer show up drunk than show up worried to the point of distraction because they can sober up if they're drunk. They can't sober up if they're broke and struggling and unprofitable, right? Your clients expect you to show up as the best version of yourself that you can be. And you can't show up as the best version of yourself if your law firm is unprofitable. If your law firm is losing money.

John: Let me pull you back a little. I agree with that. I think that obviously that's an extreme and I know you've run into examples where that maybe is valid.

RJon: Extreme! That is more than half of the law firm owners out there. They don't advertise this. They don't promote it. Let me tell you, you work with enough tens of thousands of law firm owners over twenty-plus years, and I'm telling you, that's not the exception. If you're listening to this and you're in the audience and you own your own law firm and you're thinking that, you know, I have a crystal ball and I somehow know who you are. This is more than half of the lawyers out there are one or two months away from not being able to make payroll.

John: So, let's say that someone is maybe not in quite that extreme a sense. I'm going to come back and I'm going to agree with you. I think of it in a maybe more measured way and that's okay.

RJon: I'll go along with this hypothetical situation.

John: Yeah, yeah, yeah. So this idea, if you are not profitable and you take on the next matter and if your law firm is not profitable.

RJon: If your law firm is not profitable.

John: Yeah, absolutely. One of the framings that I talk about with my clients all the time is that when the client signs the engagement letter with you, and maybe they make a big trust deposit, maybe they're making an advanced payment on a flat fee, maybe it's a contingency basis, whatever it happens to be, right? They have basically signed up to owe you some money over the period of time. But you've also, you've made a promise. You've made a commitment to them

RJon: You’ve induced them into a contractual arrangement with an exchange of consideration whereby they give you money and the promise of continuing to meet their financial obligations to you, and you promise to show up as the best version of yourself with resources to pursue their case and not go out of business before the case is resolved. Yes, I agree.

John: Absolutely. Well, and even again, I think not go out of business is not saying it's an impossible scenario. It's not the one I come up on every time.

RJon: I agree to go along with this hypothesis. Go on.

John: The key that I want to talk about is this idea that you have made a commitment. You are now in debt to the client. What I've referred to as delivery debt. And you have promised a set of deliverables that is sufficient to achieve the client's objective and whatever the legal matter is. But if you haven't arranged your practice to be able to produce those deliverables and deliver on that promised outcome within a reasonable amount of time, then that's the thing that gets you into trouble.

And so, I also, you know, I served on the Board of Governors here in Oregon. I work closely with the bar. And I know that client communication is the single most complained about issue that comes up in terms of our what's our client assistance line is the lawyer complaint department.

RJon: Like I said, fifty-four percent of the bar grievances start off as a law firm management problem, which ultimately, if you go down to the seat of it, is lack of profitability.

John: Yes. And so, when you are more profitable, then you are able to have confidence that you can take on the right number of matters that meets your available capacity of your practice. And you're going to make good money, good enough money, but hopefully good money, delivering that work product to those clients so that you're not tempted to basically feel like you have to take another one and have to take another one and have to take another one. Because each one of those new commitments you make actually takes away from the experience and the commitment that you've already made to those existing clients. Reflect on that for me.

RJon: I mean, I'm saying the same thing as you're saying. I'm just not saying it in quite the politically correct way. I admire you for your ability to say that in such a politically correct way. From my perspective, there's this thing called the cost of goods sold, which by the way, most struggling law firm owners have never heard the term cost of goods sold. The ones who have heard of the term cost of goods sold don't know how to explain it or define it. The ones who know how to explain it or define it, only a handful of them know how to calculate it.

The vast majority of struggling small law firm owners don't know what their law firm's cost of goods sold is. In many cases, you ask them, what does it cost to deliver this service? And they say, nothing, just my time, which is like a giant red flag soaked in kerosene planted on a pile of dynamite buried in a pile of shit, ready to blow up all over you and your family if you don't know your cost of good sold.

John: So let's define cost of goods sold, because I do think that is something. And before we talk about cost of goods sold in a law practice, talk to me about cost of goods sold in a bicycle factory or you pick your widget. How does a traditional business calculate cost of goods sold?

RJon: Just for fun. So every quarter we have a live quarterly meeting. I think you know that. We manage more than five hundred of some of the most profitable solo and small law firms in the country. But a lot of them come to us not very profitable. A lot of them come to us, they're at the beginning of this journey of becoming a more mature entrepreneur. And one of the things that we hear a lot from them is all the reasons why blah, blah, blah, because of my practice area, because of this. They all have reasons and stories and excuses for why they are a special snowflake and why their law firm, this concept of cost of goods sold doesn't apply, which of course is ridiculous because it does.

So just for fun, we have also a kids entrepreneur club and a teenage entrepreneurs club. So we took a group of our teenagers and we taught them how to read, interpret, analyze, and talk intelligently about financial statements, right? And then we put them on stage in front of five hundred law firm owners, including their parents, and had the kids teach a lesson on cost of goods sold. And then we got on stage and said, so, tell us again why you can't do this, right?

So, I'll give the example that the kids gave, and maybe in the show notes I can include a link to a video of the teenagers on stage teaching cost of good sold. The example that we used to teach them and the example that they then taught to their parents is a coffee shop. So, let's say you sell a cup of coffee for one dollar. What does it cost to hand that cup of coffee to each incremental customer, right? If you have zero customers, you still pay rent. If you have zero customers, you still pay electricity. If you have zero customers, you still pay insurance. If you have zero customers, you still pay for the marketing expense, right? But when that very first customer comes in and buys the very first cup of coffee for one dollar, now you have an incremental expense.

You have to give them a cup. Let's say the cup costs you a nickel. You have to give them a sleeve for the cup. Let's say the sleeve costs you a penny. You have to actually put coffee into the cup. Let's say the coffee itself costs you four cents, right? Now we're up to ten cents cost of goods sold. Now you've got the incremental labor cost for serving the cup of coffee. And let's say this person can serve a hundred cups of coffee in an hour, right? A hundred cups of coffee in an hour. And let's say you pay this employee twenty dollars an hour, right? So taking out my calculator and you say twenty dollars an hour divided by one hundred costs you twenty cents per cup of coffee.

So, you've got a nickel for the cup, a penny for the sleeve, four cents for the contents, and twenty cents of labor, your cost of goods sold is thirty cents. It costs you thirty cents to give that cup of coffee to the customer. You sold the cup of coffee for a dollar, your cost of good sold is thirty cents, your gross profit is seventy cents, right? So, let's just say your overhead, let's say your monthly expense is a thousand dollars, just to use a number. And you sell the cups of coffee for a dollar a piece. How many cups of coffee do you have to sell just to break even, not to make one penny of profit, right?

The wrong answer is a thousand cups of coffee, right? A thousand dollars divided by a dollar per cup is a thousand dollars of gross revenue, but you actually need to sell a thousand dollars divided by seventy cents gross profit. You need to sell fourteen hundred and twenty-eight cups of coffee just to not make one single penny of profit for the month, right? So if you don't know these numbers for your law firm, you don't really know whether your law firm is profitable or not.

Don't confuse cash flow with profitability. These are two very different numbers, two very different pieces of information. Both are important. But, you know, if you're only looking at cash flow, cash flow, cash flow, cash flow, that's a lot like looking at the speedometer of your car without knowing if you're going to run out of fuel. Profitability tells you whether you're going to run out of fuel before you get to your destination.

Now, law firms are inherently very, very, very profitable businesses. Even a very badly run law firm is still going to be more profitable than most other business models.

John: So I want to hit on that. I do want to pull apart for a minute because I think there are maybe two different, in the world of Agile, we have this fun word called an anti-pattern. And an anti-pattern is something that everybody does even though it's wrong. And so there's kind of two anti-patterns that I run into. One of them is what you just said, which is basically management by bank account. And you think that's enough. And as long as there's enough money in the bank to sort of cover whatever thing you've got to cover in the next month or two, right? And I think that describes the situation you were talking about, you know, that who knows? If a matter is going to take four months or ten months to deliver and you're only looking about whether you're going to make payroll this month and next, then yeah, the firm might go out of business before that matter gets delivered.

The other one, and I think you hinted at this, is lawyers will tend to add up all the money they brought in at the end of the year, subtract all the expenses that they had and call that profitability, which it is, but it's a really rough form of profitability. And what it doesn't do...

RJon: It's not even profit because they're not counting, most of the time, they're not counting a lot of the hidden costs.

John: Yes. I completely agree. Well, and so without diving deep into the all the psychology, which I think you and I have both run into around why that anti-pattern exists, the better way of thinking because you talked about general overhead, right? The rent on the building, the cleaning service, whatever it happens to be, right? Just the things that you are going to have to pay month after month, year after year, just to exist as a business.

In the accounting world and in the Profit First world, we think of that as overhead expense or sometimes more detailed SG&A, right? Sales general and administrative expense. But the problem that I run into a lot, and I think you do too, is that law firms tend to want to put their people's salaries into that bucket instead of into the cost of goods sold bucket.

And in the example you gave, right, in the coffee shop, there's the beans and the cups and all these raw materials that you need in order to deliver the end product. And one of the beautiful things about legal is we mostly don't have them, right? We don't have to go buy iron or steel or, you know, all these other things in order to produce our…

RJon: Or shoes or eggs or milk.

John: Bingo. Yes. So again, to your point, from a cost of goods sold perspective, we are well positioned to be highly profitable. But the mistake that I see all the time is that law firms don't put their people's salaries who are responsible for delivering the work into that cost of goods sold calculation.

RJon: There's a nuance to it that makes it a little bit more complicated for them because there's two kinds of overhead. There's fixed overhead and there's variable overhead. In the book, I describe it also as static overhead versus dynamic overhead. Static overhead is overhead that adding more of it does not really impact or help profitability. Electricity is a great example, right? If the law firm does not have enough electricity, you're going to have a problem, obviously, because everyone's sitting in the dark and no one's computers will work. But calling the power company and saying, hey, send me more power because I want to drive up revenues, isn't going to do you any good.

Marketing on the other hand tends to be dynamic in nature. Sales tends to be dynamic in nature. Staff training is always dynamic in nature. If you invest more on marketing, good marketing, trackable marketing, marketing that's data driven with key performance indicators and a dashboard and a marketing vendor who is willing and able to be held accountable, whole different conversation.

If a dollar of marketing brings you in five dollars of new business, well, two dollars of marketing maybe brings in ten dollars and three dollars of marketing brings in fifteen dollars, right? And you keep investing more on marketing until you reach a law of diminishing returns that is not worth doing anymore. But it's dynamic, meaning the more I spend on marketing, the more revenues come in, the more profits go up. Same thing with sales, same thing with staff training.

As opposed to static overhead, which is, I got to pay rent, I got to pay for electricity, I need a chair for people to sit on. But once I've given someone the best chair possible with the best, you know, support so they can be maximally productive, giving them two of those chairs isn't going to make them more productive. The point I'm making is some of your staff are deployed in roles that are static in nature and some of them are in roles that are dynamic in nature. And if you don't make this distinction, you inadvertently cut expenses.

So what happens in law firms all the time when they start running into cash flow problems is the first thing they do is they usually start cutting dynamic overhead when they should be cutting static overhead. They do exactly the opposite because they don't know the difference and don't understand the significance of making a mistake around here. Ignorance is bliss, as they say. And most law firm owners are struggling their whole career. They retire as a continuing struggling law firm owner, never even understanding where their struggles were coming from. And most of the time, it's because of this issue that they never even understand.

John: Yes. I think that's-

RJon: Which is discussed in the book and explained in the book in plain English so even a teenager can understand it. You can teach your teenagers and let your teenagers explain it all back to you. I promise you, they'll all understand it.

John: Like I said, I think of there being three high-level systems, right? The getting the work system, the delivery system, and the getting paid system. I think there are lawyers that struggle with the getting paid system. I think I don't want to dive into it, but I think you and I agree that solving problems in the getting paid system is actually the easiest set of problems to solve. It just requires some mindset shifts, which are not always easy to make.

RJon: It’s not the most easy but it's the most simple.

John: It's the most simple. There you go. So it is the simplest. Not always the easiest because there's a lot of psychology wrapped up in it.

RJon: It's emotionally difficult to grow up into the kind of mature enough entrepreneur to allow simplicity to work for you. A lot of law firm owners, they're brilliant people, well-meaning, but not mature entrepreneurs, and they avoid things that are simple and they make their lives harder than they have to be. Making a law firm more profitable, and this is one of the things I love about what you do with Agile, is mostly it's about decomplexifying the law firm, making things simple. The problem is, if you're dealing with a law firm owner and worse, their staff whose ego is all wrapped up in being the only one who knows how to do this very complicated thing, then they fight the simplicity and the simplicity is where the profit is found.

John: Yes, a hundred percent. It is the thing that I that I certainly wrestle with my newer clients all the time. Obviously, you see it a lot too. There's a funny thing in the, and I again, try to avoid going too deep down this rabbit hole, but the identity of lawyers as problem solvers is one of our great strengths. But when we allow ourselves to wander into broader and broader sets of problems that we think we can solve, that can be a recipe for disaster.

RJon: I'd like to just comment on that if you don't mind. You know, the mark of a great artist is having an editorial eye. It's knowing what shouldn't be in the picture. It's knowing what shouldn't be in the design. I forgot the sculptor who said that when they were sculpting, their job was to take away all of the stone that was hiding the statue or the sculpture inside of it.

The problem is, when you have a really smart, highly analytical person, most lawyers are very smart people, usually we are well-intentioned. And the problem is when they go solving problems, they create a lot of problems in the operation of their business so they can solve the problem. A fairly high percentage of arsonists are actually firefighters because they like to go to the rescue.

When a lawyer gets their ego stroked, when they get their self-esteem from solving problems, pretty soon, they start being able to get their ego by solving any kind of a problem instead of stay focused on solving the problems that actually make people's lives better. Don't waste your time keep solving the same problems over and over and over and over again that doesn't actually make anyone's life better. It feels good. You feel like you had a busy day. You never got anything accomplished, but you had a busy day and you were intellectually stimulated because you solved the same problem for the ninety-seventh time in a row.

We're using the term solve, and let me share some vocabulary from within the How to Manage a Small Law Firm world. When you talk to members of How to Manage a Small Law Firm, like I said, we got five hundred law firms, and you talk to almost any one of our members and you start talking about this, and you'll notice that they use some unusual, uncommon, but very deliberate and intentional vocabulary, right?

One is you ask them, how was your day? And most of our members will not speak to whether they're busy. They'll speak to whether they were productive. How was your day? How are you doing? They won't say, I'm busy. They'll say, I was really productive today, not I was really busy today. That's number one. And number two is we make a distinction between fixing a problem and solving a problem, right?

You're driving down the street, you get a flat tire, you patch the tire, you put some green goo in the tire, you pump up the tire, the tire works for long enough to get you to a service station, or maybe even long enough to drive around for a week or two until you can get to a place to replace the tire. You haven't solved the problem of the flat tire. You've fixed the problem. Fixes get you to the service station. Putting a new tire on the car actually solves the problem.

Most law firm owners are going from fix to fix to fix to fix to fix to fix. They're literally getting their fix on fixing problems instead of solving the problem once and for all and then being able to focus on working on problems that actually produce real value for their clients and make the world a better place.

John: Bingo. Yeah. Let me reflect. I get two quick things that I use in my discussions with folks. One is, you know, one of my phrases I use all the time is that responsiveness is the death of productivity, right?

RJon: I love that. I'm going to write that down. I'm going to quote you on it, man.

John: Responsiveness is the death of productivity. And there's a lot in the sort of zeitgeist of law practice that you have to…

RJon: You can tattoo that onto someone's hand.

John: There's some people that need it. And it's easy to get, you know, we get an endorphin rush from being responsive, right? It feels good. It's like you said, you're getting you're getting a fix. But that fix is not actually leading to an outcome. It's just a fix.

The other one, bigger picture, you know, it's been a while now, but I've I've done in a few different stints some consulting work out at Nike. And Nike is sort of famous for its various maxims and obviously famous for their sports metaphors. But one of the maxims at Nike is no diving catches. And you would think that, okay, but diving catches make SportsCenter. And everyone agrees, like diving catches make you look like the hero. But the point that was made to me by one of the senior managers I was working with is there's no coach in the world that has a diving catch as part of their playbook.

RJon: What we say at How to Manage is we want engineers, not firefighters. And the thing is, the engineer who designs and builds the building that doesn't catch fire gets no glory. The firefighter who comes to the rescue to clean up the mess after the engineer did a shitty job or the person who owns the building did bad maintenance, the firefighter gets all the glory. And so what ends up happening, and this goes back to the point of why a lot of arsonists are actually firefighters. I'm not saying that most firefighters are arsonists. I'm saying a lot of arsonists are firefighters. You don't like firefighters. No.

Yeah, I mean, no diving catches, responsiveness is the death of productivity. Let's celebrate the engineers who prevent the need for the firefighter to come to the rescue. We're all saying different versions of the same thing. And unfortunately, too many law firm owners get their ego gratified, they get their sense of self-esteem. They're just entertained. It's entertaining to go to the rescue. But if you want to build a real business that serves your life, that serves your community, that really makes a big positive impact in the world, you got to engineer it to not catch fire all the time.

John: Okay. So I want to transition back to something you started to talk about, which is your rocks and your calendar behind you. But and I heard you talk about this in another podcast, and I'll I'll maybe put that one in the show notes so we don't have to give the repeat of that because I love the stories you tell, but it reminded me, there's a guy that I've actually gotten to know recently, but who's one of the big thinkers in the world of Agile, a guy named Mike Burrows. And you've probably used Kanban boards, you've seen Kanban boards, right? Cleo Manage now has these Kanban boards.

But you know, Kanban board, my listeners know what it is. You've got the cards and the columns and you're basically creating a visual representation of the otherwise invisible knowledge work. And it's very much one of my preferred methods for helping do the sense-making of the delivery pipelines. But one of the things that Mike is really insistent on is when you read a Kanban board, you read it from right to left, not from left to right.

So you don't start at intake and then look at what you've got coming in the door in order to push work into your probably already overburdened system. You look at the end of your Kanban board and you say, what are the cases I have in my pipeline that are closest to done? Because those are the ones that represent the most investment I've made. They also are the ones that represent the ones that are most likely to create the client outcome you're looking for.

And by moving those across the finish line into the done column on the Kanban board, you've now done three beautiful things, right? You've created value for the client. Hopefully, you've been able to at least now recognize the revenue if you didn't have it ahead of time in your law practice, but you've also created capacity inside of your practice. And it's that capacity that now allows you to confidently bring the new work in the door without feeling like you're overburdening that system.

It's basically running your law practice a little bit like a nightclub where you say, okay, I want to market my nightclub. I want to have folks lined up outside of the velvet rope. But I'm not going to let a new client in the door until someone else goes out the door. Because if I don't manage the capacity of this club, I can't create the experience that everyone is here to pay for and here to enjoy and here to get out of the whole system. So, anyway, that's a long soliloquy for having a guest on here, but I think it ties into this notion of profitability and it's about finding that balance in your practice and being able to do it in a way that makes it sustainable and ultimately scalable.

RJon: And this goes back to the point of focusing on Profit First, becoming an educated consumer of professional financial services, understanding how to read, interpret, analyze a set of financials because there are times when the right case to prioritize is the case that's closest to completion. There's times that the right case to focus on is not necessarily the case that's closest to completion. If you're three months from running out of cash, you better focus on the cases that are going to be cash flowing the quickest, even if the dollar amounts and the profitability is the least. On the other hand, when you're flush with cash, then maybe you focus on the cases that are going to be the most profitable, even if that profit is six months away from fruition.

And then, you know, we go also to sometimes the squeaky wheel gets the grease and you want to focus on the cases or the clients that are the biggest pain in the ass to get them out of the firm to protect staff morale. So your staff doesn't get burned out with that person, right? And it's not fair, but as a practical matter, fairness has no place in any of this, right? There's only what works and what doesn't work in this politically incorrect world called reality, right? And the point I'm making is the Kanban board approach is exactly the right way to do it. This also, by the way, is exactly the right approach.

I've never used a Kanban board per se, but we have our own, you know, sort of proprietary version of that with How to Manage Small Law Firm, which is how contingency law firms can become so much more predictable. The predictability of cash flow and the predictability of expenses and the predictability of profitability of a personal injury or any other contingency law firm. Those are extremely simple businesses to make predictable. Don't try telling that to most contingency law firm owners because they'll argue till you're blue in the face because it becomes very exciting for them to come to the rescue with cash flow problems and having nice stable, predictable cash flow and nice stable, predictable profitability, it's not exciting enough for them.

John: I'd love if you have a few more minutes, because I know we're a little bit long on our time, but one of the things that I've just admired about you kind of as long as I've known of you and of your program and all the rest is you're a great marketer. You are really solid in terms of your overall approach to speaking plainly to your audience. You've got what years now worth of resources available. And even, you know, again, I love, the *Profit First for Lawyers* book is great. To pull back the curtain slightly, it serves as a remarkable lead magnet into the other tools and resources that you've got in the How to Manage ecosystem, which I think is brilliant.

There's this funny thing, right? Lawyers think of marketing as like a dark art or maybe even a some form of subterfuge or something that's unseemly.

And look, man, marketing works. And marketing is how you keep that engine fueled up so that you can actually get out there and deliver.

RJon: When I was working at the Florida Bar sometime back in like 1999, 2000, 2001, I wrote an article for the Florida Bar newspaper at the time about why lawyers, law firm owners, why we have an ethical obligation to market our law firms. We have an ethical obligation to market our law firms. And I can prove it. I can prove the need. I can prove the need for lawyers. I mean, we look, I agree a hundred.

John: I'm laughing only because I can only imagine the feedback that you got from the profession.

RJon: So think about this for a second. Who in their right mind would go online and do a search for a lawyer to help them with a really important matter if they already had a lawyer who they know and like and trust? No one would go online and search for a lawyer if they already have a lawyer that they know and like and trust enough to call for help. So what does it tell you that there's so many lawyers getting so many clients from online searches? What it tells me is that there's a whole lot of people who don't already know, already like, and already trust a lawyer or a law firm.

So when things happen in their life, they already have a pre-existing relationship. And I think we have an ethical obligation to go out, engage with our community, share education, share free resources, and make sure that whenever anyone has a need for a solution to the kinds of problems that your law firm is in the business of solving, they already have a relationship. It doesn't have to be some complicated, dramatic, humiliating, scary process.

John: I agree a hundred percent. I would love if you, again, if you have a couple more minutes. Let's say someone wants to start up. I know you've got your quarterly meetings. How does the How to Manage program work? Because I know you have an application process. But when someone comes in the door and is working with you, what do the first three, nine, eighteen months look like?

RJon: Thank you for giving me this opportunity to plug myself.

John: Sure.

RJon: So first off, we have a waiting list. We've had a waiting list for the better part of three years, which is both great and wonderful and also very frustrating. For better or for worse, we have a waiting list.

John: That's the velvet rope outside of the nightclub, right?

RJon: Yeah, except nightclubs do it to try to make it look like it's really cool inside the nightclub. I'm losing millions of dollars a year because I got this waiting list.

John: Because you got to ramp up your capacity to meet the demand.

RJon: Well, look, I mean, we grossed over thirty million dollars last year helping to manage these five hundred law firms. We could have grossed probably thirty-four or thirty-five million dollars if I didn't have the waiting list that I've got. So I mean, I'm literally losing out on millions of dollars because of this waiting list. But I'm not willing to lower my standards for the caliber of the talent that I hire and the investments that I make on training and support. Anyway, you get the idea.

The point I'm trying to make here, you asked me is what's the experience. And the experience is, you know, everyone, you can just like put your wallet away. Relax. We've got what we call the waiting room. We created the waiting room, basically is a place for people to hang out while they're on the waiting list. While they are in the waiting room, we give free courses, we give free materials, we give free resources. We give free workshops. We give free virtual workshops. You can even come live to some work, some of our live workshops for free as long as you're on the waiting list waiting to become a full-fledged member of How to Manage a Small Law Firm.

So, I mean, I can explain everything that happens after that process begins, but by the time you have been on the waiting list for, you know, a few months, you're already going to know exactly what it's like to do business with us. You're going to know if you like us, don't like us, if you want to do business with us. You're going to have already met probably, you know, a couple hundred of our members. You will have worked with my team. You'll have plenty to know whether you want to go to the next step or not. And in fairness, we also will find out if you're the kind of person who we think we want to do business with because we have a strict no assholes policy. And every once in a while, someone's on the waiting list and we're like, don't think this is someone we want to let into the club.

John: Yeah. Okay. But with that, I think we are at time. So thank you so much for coming on the show and talking about profit and the importance of profit. And maybe we'll get a chance to cross paths again, maybe in person one day.

RJon: I'm hoping everyone goes to Amazon and buys my book or goes to my podcast, *Profit First for Lawyers Podcast*.

John: As I said, a brilliant marketer and salesperson. So yes, absolutely. Get out there and get the content.

All right. Obviously, there is a lot to unpack from that conversation. But before I wrap up, I do want to offer a couple of quick fact checks. During our conversation, RJon mentioned that fifty-four percent of bar complaints are due to law practice management problems. Now, that's a number that's subject to interpretation, but looking at the hard data here in Oregon, which I think is consistent with most jurisdictions, I'm not sure if it quite holds up.

The number one source of bar complaints in Oregon is poor communication at about ten percent, followed by lack of competence or diligence at nine percent, and then complaints about the quality of representation at seven percent. That's a total of twenty-six percent, and then there's a lot of small percentage topics underneath that, which may or may not be law practice management related. So, saying that fifty-four percent of bar complaints stem from practice management problems seems like it's a little on the high side. But the actual percentage is still significant. So I think RJon's point is a good one.

RJon also stated that a high percentage of arsonists turn out to be firefighters. I looked into that claim, and best as I can tell, it's not true. I couldn't find any solid evidence that firefighters commit arson at a higher rate than the general population. Still, I understand why the claim is a persistent myth because when a firefighter does commit arson, it tends to make headlines and catch people's attention.

My hope is that the real fire you're focused on is one that fuels a well-functioning law practice. And that means understanding profitability. Net profit, the amount of money you have left in the bank at the end of the month or the end of the year, is important, no question. But if you want real decision-making power, especially when it comes to things like staffing, pricing, or case selection, you need to understand your gross profit, ideally broken down by practice area or even matter type. That's the layer of information that gives you control, flexibility, and the information you need to run your practice in a more intentional, non-reactive way.

To that end, I have a tool you can use to help you calculate your gross profitability and get some other useful metrics across your different practice areas. It takes a few minutes to set up, and it requires some data entry, but I think you'll find that the information it yields is well worth the investment you make. You can find it in the resources section of The Agile Attorney community at community.agileattorney.com. Look for the profitability spreadsheet. Or you can shoot me an email at john.grant@agileattorney.com and I'll make sure you get a copy.

That's it for this week. As always, this podcast gets production support from the fantastic team at Digital Freedom Productions. And our theme music is Hello by Lunara. Thanks for listening, and I'll catch you next week.