

# The Profitable Law Office Handbook:

## Attorney's Guide to Successful Business Planning

16th Anniversary Edition

By Edward Poll



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# PREFACE

The practice of law has changed a good deal since the first edition of *The Profitable Law Office Handbook* was published in 1996. But one thing that has not, and will not, change is the need to run a law practice in a businesslike way.

By far, the most-common state bar disciplinary complaints concern lawyers' performance—mostly in terms of failure to perform, delay, abandonment or failure to communicate. And one of the main reasons that small firms or sole practitioners get into trouble—with their state bar or with their own cash flow—is an inability or unwillingness to run the business of the practice efficiently. But if lawyers are not able to take care of their own business, they obviously are not going to do a very good job of taking care of their clients. And that attitude leads to trouble.

That is why it is essential to accept that the law is both a profession and a business. Viewing the practice of law in its totality, we can see how it resembles the operation of any professional service business, and how it follows the traditional cycle of business—getting the work, doing the work and getting paid for the work, all while intending to make a reasonable profit.

When we lawyers act in a more businesslike manner, we tend to be more efficient in the delivery of our services, more effective with our clients, and more profitable, all of which benefits both the client and the lawyer. This continues to be my mission in working with lawyers around the country. And it is my goal in presenting you with this special 16th Anniversary Edition of this volume.

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# OVERVIEW

## The Benefits of Business Planning

Most lawyers would now agree that “law is a business,” a recognition that signals a dramatic change from bygone days. And indeed, I have observed that some lawyers and law firms are extremely conscious of the business aspects of running a practice. They deliver legal services with a view to the costs and benefits of those services. That is, they try to balance the benefits to be achieved for the client with the cost of delivering those benefits.

But, unfortunately, many others do not. Frequently these lawyers are overworked, underorganized or lacking in the business skills to make their practices run more efficiently. Yet regardless of the cause, it begs the question: Can these lawyers be delivering “quality” legal services?

As an attorney, you *must* strive for balance in the responsibilities inherent in a law practice—balance between advocating your clients interests and operating an efficient business. If you fail to achieve a workable balance between these responsibilities, your practice will not succeed. Why? You will not be able to adequately advocate your clients’ interests if you are overworked, disorganized and unfocused, or losing money. Moreover, you risk clients filing a complaint with the state bar.

Here are some basic indicators that can signal that the business of your practice requires some first aid:

- ▶ Your firm’s financial statement shows a smaller profit, or even a loss, compared to prior periods.
- ▶ The firm has less money available for partner draws.
- ▶ Clients are taking longer to pay you.
- ▶ The firm has poor cash flow, i.e., not enough money coming in compared to money going out.
- ▶ You have fewer clients—especially fewer financially healthy clients.
- ▶ There is a notable increase in competition for new clients.
- ▶ There is an increase in client complaints.

- ▶ Morale and trust levels among lawyers and staff are poor.
- ▶ Turnover rates among the firm's lawyers are high.
- ▶ You are working more hours but feeling like you're falling behind.

You need to think about your practice's business before you run into the problems that can threaten failure for the firm. This is usually called planning ahead, and the point of this *Handbook* is to help you plan now, so you can analyze the course of your law practice before serious problems arise.

Lawyers will be well served by following the directions contained in this work to create a business plan, a plan not necessarily long but clear in objectives and tactics for achieving the goals set forth by you. Not only will the lawyer (you) as well as your entire office benefit from this clarity and focused direction, your clients will also benefit from this plan because they will better understand the scope of your business, of your practice, and how they fit within it. You don't have to show them your business plan in order for your clients to get the message, of course—they will get the message by your attitude, your approach to their matters and your approach to your own business.

A cohesive business plan will enable partners, associates and staff to work together to make your practice more successful and provide a guidepost against which you can compare how you and your firm are performing overall.

## **How to Use This Book**

This volume was designed in response to the many requests I've received over the years for an easy-to-understand outline of how to create a business plan. That's basically what this *Handbook* is. The primary goal is to describe a plan of action that is workable and manageable, and that you will use and refer to frequently. It is intended to help all its readers—attorneys and law firms, start-ups, solos and smaller firm practitioners—accept the twin principles of planning for the future and running your practices as businesses.

After reading through all the pages, I hope you will have—or be ready to prepare—a completed plan consisting of three components: goals, marketing and finances. The end result will be one to three pages in each section. That's right—only one to three pages each. That's a total of less than 10 pages. But those pages will probably be the most important you will ever prepare. They will represent what your practice is all about and where you're going with it.

# Part I

# Preparing to Create Your Business Plan



*“Drive thy business, or it will drive thee.”*

*— Benjamin Franklin*

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# INTRODUCTION

**A** plan is a scheme or program for making or doing something. It is a detailed method, formulated beforehand, of how to proceed on a course of action. Since what we are discussing here is the business of the practice of law, our plan is appropriately called a business plan.

A good business plan is:

- ▶ Simple to understand
- ▶ Flexible enough to incorporate changed circumstances or new information
- ▶ Based on shared beliefs of the stakeholders
- ▶ Agreed to and supported by all those with responsibility to act, including staff as well as lawyers

Business planning is an idea and an action that can be accomplished regardless of the nature of your practice—and contrary to what many think, a business plan does not need to be a thick document inside an expensive binder. The problem with most business plans, in fact, is that they are too complicated and intimidating. Consequently, they are typically put on a shelf, never to see the light of day again. But a plan that is not used is no plan at all. Plans fail, generally, only from lack of implementation.

The most difficult part of creating any plan is getting started. What information is required? How do you proceed? What are the steps to take? It is common for there to be a certain amount of fear associated with this kind of “big-picture” planning, and lawyers are not immune to feeling it.

You do not need to feel frightened about business planning, however, even if you have never done it before. It helps to remember that planning should first and foremost be simple and understandable. It should also be logical.

The following pages will guide you in how to begin the process.

# I.1. Understand the Basics of Business Planning

## The Objective

To grasp what lies ahead—including what actions must be taken—so the planning process is as complete and smooth as possible.

## Know The Five Essential Steps

The business planning process has certain steps. To simplify the process of running a successful law practice to its essential elements, here are the basic steps you will use:

### ***Preparing To Plan***

This includes having all key players agree to make and abide by the plan; determining logistics for planning sessions; and gathering historical information so you can analyze it and consider realistic modifications. (See Steps I.2-I.5 in the next pages.)

### ***Identifying Goals***

This includes the principals' professional and personal goals, as well as goals for the firm itself. (See Part II.)

### ***Developing The Marketing Plan***

This plan is designed to achieve the goals you identify and will help you determine who potential clients are and how to attract and keep them. (See Part III.)

### ***Creating A Financial Plan***

This can include many documents, but in a professional services business, the simplest and most powerful is a detailed cash flow statement that shows your goals in monetary terms. (See Part IV.)

***Evaluating And Revising***

After creating the business plan, there is the ongoing task of evaluating and comparing the results with your goals and revising the plan as and when necessary. Revisions based on new and more current information are not bad. Don't "get down" on yourself or feel disheartened. Don't assess fault or blame. Make the needed changes and move forward. (See Part V.)

**Note:** Plans for the future do not always mean anticipating growth; in a stagnating economy, planning to stay at the present level of revenue, market share or practice size may be the most that a lawyer can expect.

## I.2. Anticipate How to Overcome Resistance

### The Goal

To get stakeholders to accept the concept of business planning so that, in turn, they will agree to hold a planning meeting and develop a written plan for the firm.

### Know What The Typical Objections Are

Be aware that many lawyers are still generally leery of business planning owing to four main objections (or “excuses”):

- ▶ They adhere to an old-fashioned belief that attention to the business side of law practice is demeaning, or unprofessional, and that money concerns are a necessary evil best left to non-lawyers;
- ▶ They feel that discussing or planning for business success would take up valuable time better spent on clients, or that they just do not have time to spend on nonlegal matters (e.g., learning business skills or creating written plans);
- ▶ They think they lack adequate training to make business decisions, or they simply lack the desire to learn about business; or
- ▶ They feel that planning is complex, intimidating and boring.

### Counter The Criticisms Directly

Have responses at the ready to convince your colleagues (and perhaps yourself) that such objections are unfounded, i.e.:

- ▶ “Business” is not dishonorable at all—indeed, those who do not recognize the importance of business

# Form I.A

## Law Firm Economic Survey

*Use or adapt this sample survey to suit your own law office.*

### **BUSINESS STRUCTURE**

1. How many of the following were employed at your firm as of the end of your last fiscal year? (fill in number of all that apply)

Partners/shareholders \_\_\_\_\_

Associate lawyers \_\_\_\_\_

Of counsel \_\_\_\_\_

Paralegals \_\_\_\_\_

Secretaries \_\_\_\_\_

Administrative staff \_\_\_\_\_

IT and other staff not included in above \_\_\_\_\_

2. What is your firm's business structure? (check only one)

Professional corporation

Partnership

Limited liability corporation

Sole proprietorship

3. Which of the following do you have? (check all that apply)

Managing partner/managing shareholder

Management committee      Number of members: \_\_\_\_\_

- Non-lawyer chief executive officer
- Full-time firm administrator/executive director

4. Does your firm have a written partnership or shareholder agreement?

- Yes
- No

## FINANCIAL INFORMATION FOR LAST FISCAL YEAR

5. Gross billings \$ \_\_\_\_\_

6. Gross receipts \$ \_\_\_\_\_

7. Expenses (estimate where needed)

### Salaries

Partners'/shareholders' compensation \$ \_\_\_\_\_

Associate lawyers' compensation \$ \_\_\_\_\_

All other payroll \$ \_\_\_\_\_

**Rent** \$ \_\_\_\_\_

**All Other Expenses** (including supplies, equipment, travel, postage, telephone, professional services, client disbursements written off, depreciation of furniture and fixtures, etc.) \$ \_\_\_\_\_

8. How much office space does your firm occupy? \_\_\_\_\_ Sq. Ft.

## NET WORTH AT CLOSE OF LAST FISCAL YEAR

9. What was the value of unbilled time (work in process) at your regular rates at year-end? (do not include pro bono work) \$ \_\_\_\_\_

10. What was the value of time written off (either as unbillable or through reduced rates) during the year? \$\_\_\_\_\_
11. What were the "clients' costs advanced" outstanding at year-end? \$\_\_\_\_\_
12. What was the amount of billed accounts receivable at year-end? \$\_\_\_\_\_

**BILLING RATES/SALARIES**

13. Which one of the choices below most closely describes how your hourly rates are determined? (check only one)

- Based on costs
- Competition
- Arbitrary
- Other     If "Other" describe:\_\_\_\_\_

14. Does your firm regularly use any alternative billing methods?     Yes     No

If so, list your most-common ones:\_\_\_\_\_

15. This question compares attorneys' salary rates, billing rates and billable hours by years of experience and position in the firm: (please fill in the boxes)

	Years in Position	Avg. Annual Gross Receipts (\$)	Avg. Annual No. of Billable Hrs.
Partners / Shareholders	1-4 years		
	5+ years		
Associate Lawyers	1-2 years		
	3-4 years		
	5+ years		