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Helping attorneys create financial independence

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Financial Planning – The Business Side of the Practice

By: Jerry Schwartz, President of Legal Management Services, Inc.

For many years attorneys practiced law without too much consideration for the business side of the practice. They were able to make a decent living and were in a profession, so the thought of operating their practice as a business was hardly considered. They were happy to be providing a valuable service to the community, to pay the bills and take home a draw to provide for family matters. This worked when costs were low and competition was limited. Times have changed and the attorney must recognize that the part of the practice which deals with the financial existence is a business and must be operated as a business in order to continue providing the valuable service to the community. Businesses that do not make financial plans are planning to fail. Before starting the planning process attorneys should think about the following areas:

1. Hours worked - How many billable and non-billable hours should timekeepers work? What goals should be set for income per timekeeper? How much time should be provided in the holiday, vacation and sick leave policies? How will these goals affect the quality of life of timekeepers? Differences in lifestyles and economic needs will determine the answers to these questions.
2. Areas of law - The various areas of the practice should be examined to determine preferences of timekeepers to practice in these areas, expertise of the professionals and profitability. Determination of the work that will and will not be accepted is very

important.

3. Fees - Are minimum standard billing rates established? Are flat fee charges established for certain matters? Is a policy in place for premium and discount work? Are these policies practiced by all? What is the policy for write off of time on matters? What is the policy on delinquent accounts receivable? Is suit filed against clients for non-payment of statements? Fair billing and collection policies are essential to the success of the law office.
4. Management - Are lawyers willing to compromise on issues for the general good of the organization over their personal preferences? Is there an understanding and appreciation for centralized management versus a pure democracy? Can discipline be introduced to the organization for the common good? A well managed office insures the financial success of the law office.
5. Marketing - Are the lawyers committed from a time and monetary means to support a marketing program? Are they willing to follow a plan for the continued growth of the practice in areas of law that they have agreed upon? New clients and client retention is the lifeline of the law office.
6. Investment - Do the lawyers understand the need for an adequate capital base to meet operating expenses and additional capital to provide for the changes in technology and other investments to improve productivity? A continuous plan of investment in training and technology is essential to the productivity of the office

After the sole practitioner or law firm has thought about an given careful consideration to these issues, it is time to sit down with pen in hand and commit these thoughts to writing. The discussions and formulation of a management, marketing and financial plan can then take place. It will be one that is well thought out, thoroughly

discussed and written as a formal document for all to review and use to achieve the goals of the practice.

It is extremely important that all the partners take part in the exercise because the views of all the owners are very important. Sometime law offices will seek outside help to facilitate the process and keep the discussions on point. The planning meetings should be held where the owners can concentrate on the issues without interference and interruptions. The planning process will point out weaknesses in current systems and management reports. These areas must be addressed if the law office is to be financially successful. The timekeeping, billing and financial information systems must provide for adequate information to insure that the plan is being implemented and to make comparisons to actual, so a judgment can be made on the success of the program.

Once the plan has been established and accepted by all owners, it should be communicated to all associates, legal assistants and staff. The general goals of the firm must be common to all and understood by all if this is to be a successful endeavor. Don't go through all the effort to establish a plan without sharing and comparing.