
Colorado Bar Association Program

Hanging Your Shingle:

Business Planning Issues

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A lawyer's primary responsibility is to protect clients from other members of the profession.

Session Discussion Topics

- **Fundamental planning concepts**
- **Tax planning and considerations**
- **Financial and accounting considerations**
- **Budgeting and cash flow issues**

Handouts

- **Business Planning Issues presentation**
- **Scenes from a Start Up**
 - American Lawyer article on Schindler, Cohen & Hochman LLP
- **Which Forms Must I File?**
 - From IRS website
- **Choosing the Best Form for Your Colorado Business Entity**
 - by Gary S. Joiner, Esq.; Frasca, Joiner, Goodman and Greenstein, P.C.
- **Sample bank deposit slip**

Strategic Planning/Thinking

“You’ve got to be careful if you don’t know where you are going because you might not get there.”

Yogi Berra

Fundamental Planning Concepts

- **Creating a business or strategic plan**
 - **The process and journey**
 - **Comparing and judging performance**
 - **Plan is always evolving**
- **Know the cost of doing business**
 - **Overhead**
 - **Evaluating costs**
 - **By the hour**
 - **Peer group comparisons**

The Planning Process

- **Effective planning is built upon significant research and analysis; primarily in these 4 areas:**
 1. **Deep understanding of the market and competitive landscape**
 2. **Selecting a realistic position in the market**
 3. **Identifying client types and core practice niche**
 4. **Economics of competing in your target market**

- **Process begins long before you open your practice**

Strategy and Planning - A Never Ending Cycle

- **The process continues as your practice evolves and confronts new challenges and opportunities**
- **The professional graveyard is full of firms and practitioners that did not reassess their business plans**

Planning Assessment Methods

- **SWOT**

- **Strengths-Weaknesses-Opportunities-Threats**

- **Holistic**

- **One size doesn't fit all**

- **SWAG**

- **What the hell, I'm young—lets do it!**

Assessing your Current Situation

- **Internal assessment**
- **Mirror, Mirror**
 - **Resources**
 - **Financial and intellectual capital**
 - **Areas of expertise**
 - **And your competitive strengths**
 - **Work ethic**
 - **Flexibility**

Assessing your Current Situation

- **External factors**
 - **The competitive landscape**
 - **Other law firms and practitioners**
 - **In house counsel**
 - **Nibblers:**
 - **Consulting firms**
 - **Accounting firms**
 - **Client perceptions**
 - **Future demand for your practice**

Other Planning Concepts

- **Vision/mission statements**
 - **Be concise**
 - **Mission statements need to be short and unique; not:**
 - **We are a professional organization....dedicated to...uniquely qualified....high quality legal services....blah, blah, blah**
- **Determine your core values and beliefs**
- **“Believe in Your Own Bovine Droppings”**
 - **Carl A. Leonard**

Core Values and Beliefs

- **Sampling from other firms/individuals:**
 - **The client is the center of all that we do.**
 - **Listen carefully to our clients; be in tune with their changing needs.**
 - **Continuous improvement in services, processes and work environments.**
 - **Our people are our greatest resource.**
 - **Promote mutual respect and teamwork.**
 - **Frugal use of time and money.**
 - **Simple form of organization.**

Key Elements of the Business Plan

- **Executive summary**
- **Vision/mission**
- **Situational analysis**
 - **External forces shaping trends in the profession**
 - **Internal capabilities**
 - **Distinguishing characteristics**
- **Marketing strategy**

Key Elements of the Business Plan

- **Financial analysis**
 - **Multi-year**
 - **Start up costs**
 - **Operating costs**
 - **Working capital needs**
 - **Clients (segments, history)**
- **Contingency plans**

Other Planning Considerations

- **Role of the trusted advisor**
 - **Individual or advisory board to assist with ideas and development**
- **Commit your plan to writing**
- **Sufficient lead time is needed**
- **Implement**
- **Monitor your progress**

Tax Planning and Considerations

Checklist of Filing Requirements

- **Federal ID number**
- **State ID number**
- **FUTA**
- **SUTA**
- **Withholding taxes**
- **Sales/use taxes**
- **Worker's compensation insurance**

Tax Considerations

- **Four general kinds of business taxes:**
 - **Income tax**
 - **Self-employment tax**
 - **Employment taxes**
 - **Excise taxes**
- **Obtaining a tax identification number**
 - **Complete form SS-4 and call a toll free number**
 - **1-800-829-4933**
 - **Internet applications expected shortly**

Helpful Websites—Tax Planning and Filing Requirements

➤ www.irs.gov

➤ **Planning, forms, applications, small business site**

➤ www.sos.state.co.us

➤ **Colorado filing requirements and explanations**

Financial and Accounting Considerations

Economic Drivers

➤ RULES

- **Represents the primary and key statistics that measure and monitor the financial success of your practice**

RULES Defined

- **R-rates/revenue/realization**
 - **U-utilization**
 - **L-leverage**
 - **E-expenses**
 - **S-speed**
-
- **What do they mean to you?**

Key Financial Statements

- **Focus on the income statement**
 - **Key management report for most business enterprises**
- **Balance sheet**
 - **Understand the linkage to the income statement**
- **Cash flow statement**
 - **“Is this the checkbook?”**

Financial and Management Resources

- **Find a CPA or financial consultant who knows and understands your business**
- **Considerations in selecting a banker**
 - **Business and trust accounts**
- **Consider assistance for your marketing and P/R initiatives**
- **Delegate; seek out secretarial and paralegal resources**

Financial and Management Resources

- **Financial systems-invest in good software**
 - Time entry
 - Billing
 - General ledger
- **Resources**
 - Web based services: Elite (TimeSolv), TimeBilling
 - Carpe Diem, PCLaw, TABS, Timeslips
 - Others
- **CPA firm alternatives**
 - CFO Today, Padgett, CBIZ, others
 - Incorporation, tax, bookkeeping, financial statements

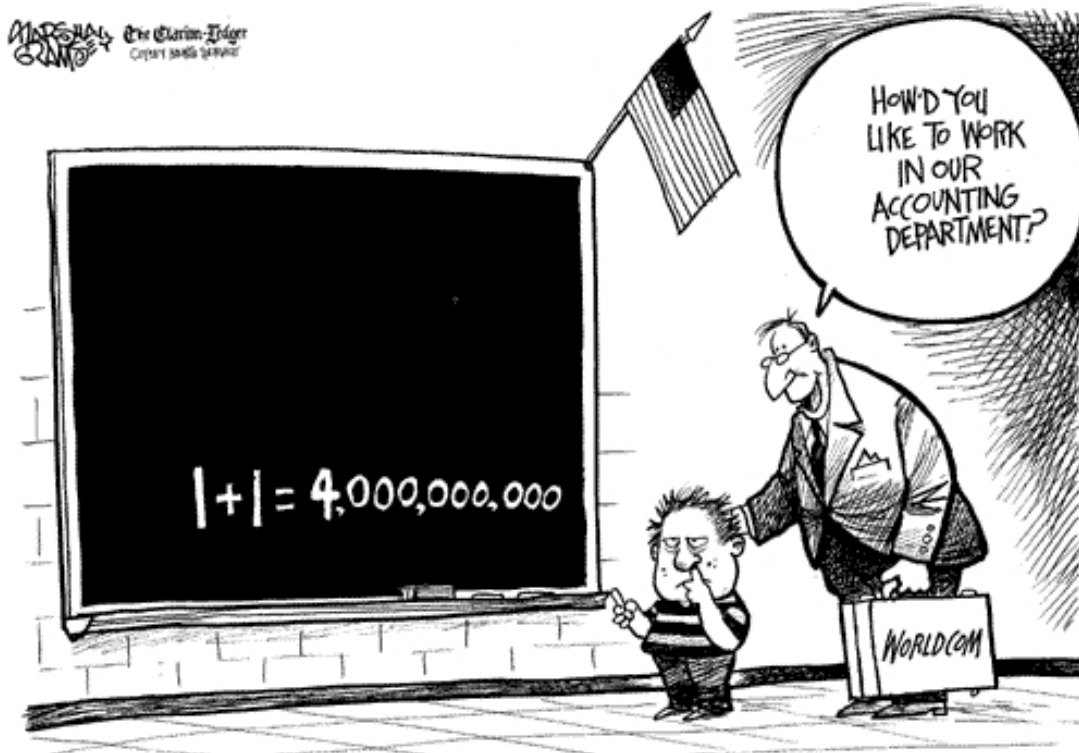
Time and Billing Considerations

- **“Frequent accounting makes for a lasting friendship.”**
 - Luca Pacioli
- **“..so does frequent time entry, billing, and collection.”**
 - Pete Peterson
- **Bill while there is a tear in the client’s eye**
- **Communication-invoices contain perception of value**
- **Client Costs—an area of alienation and opportunity**

Recordkeeping and Your “Books”

- **General ledger (i.e., your books)**
 - **Determine your chart of accounts and understand how activity is coded to the G/L**
- **Capture activity contemporaneously**
- **Principles of consistency**
- **Understand the matching convention**

Be Conservative



Budgeting and Cash Flow Issues

Types of Budgets

- **Operating/cash flow budgets**
- **Marketing**
- **Technology**
- **Personnel**

Emphasis on the Operating Budget

- **Budget is typically set for one operating cycle (e.g. calendar year) at a time**
 - **However, your strategic or business plan will have a budget or forecast for 2 or 3 years**
- **Align your budget with your chart of accounts**
- **Focus in on the income statement**
- **Align your budget with your business plan**

Budgeting Considerations for Start-ups

- **Costs specific to start-up period**
 - **Working capital needs**
 - **Deposits (facility lease, equipment leases)**
 - **Capital assets**
 - **Furniture, fixtures and equipment**
 - **Technology**
 - **Marketing/Announcements**
 - **Library and research resources**
 - **Office supplies and stationery**
 - **Personnel**
 - **Strategic outsourcing alternatives**

Understanding the Revenue Cycle and its Impact on the Budget

- **Billable hours**
- **Hourly rate**
- **Realization**
 - **Billed realization**
 - **Collected realization**
- **Again, speed is key**
 - **How long does it take to convert your billable efforts to cash?**
 - **Averages are near 4 ½ months!**

Illustrations of the Revenue Cycle

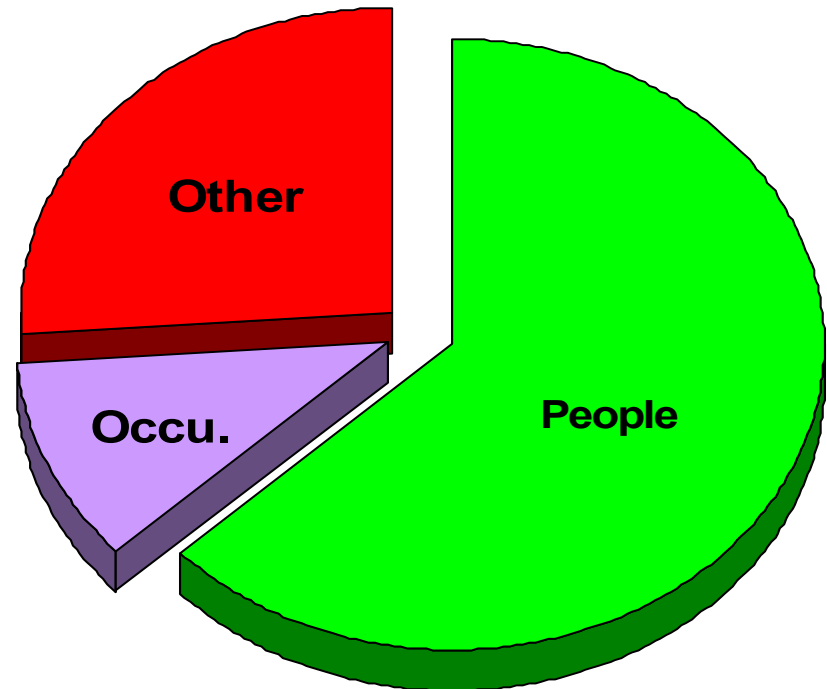
Annual Billable Hours		1,500	1,650	1,800
Standard Hourly Rate	\$	125.00	150.00	175.00
Potential Fees @ Std	\$	187,500	247,500	315,000
Billing Realization		85%	88%	90%
Fees Billed	\$	159,375	217,800	283,500
Collection Realization		90%	95%	99%
Fees Collected	\$	143,438	206,910	280,665
Improvement		100.0%	144.3%	195.7%

Cost and Expense of Doing Business

Typical Cost Structure in Large Firms

Largest costs

- **People**
- **Occupancy**
- **Other**
 - **Technology**
 - **Marketing**



Understanding and Evaluating the Cost of Doing Business

- **Top 4 expenses:**
 - **People**
 - **Can vary widely**
 - **Determine need for secretarial and paralegal support**
 - **Payroll and benefit structure**
 - **Facilities**
 - **Rent and associated costs**
 - **Technology**
 - **Hardware/software**
 - **Maintenance, training**
 - **Marketing**
 - **Advertising, business development, etc.**

Other Expenses and Considerations

- **Insurance**
 - **Professional liability**
 - **Business**
 - **Medical**
- **Library and research requirements**
- **Need for outside services**
- **Client costs**
 - **Soft and hard costs**
 - **Recoveries, write-offs**
- **Contingent reserve**

Traditional Models used in Pricing Services

- **You can attempt the traditional build-up model**
 - **Determine resources and overhead needed to service clients in the manner they expect**
 - **Your targeted level of income**
 - **The number of hours you will bill**
 - **Do the math**

How Can Clients Help?

- **Positive cash flow considerations:**
 - **Payment upon receipt of invoice**
 - **Advance retainers**
 - **For client costs**
 - **For initial efforts**
 - **Monthly retainers**

- **Educate your clients on their responsibility**

Industry Benchmarks and Comparisons

Source: Altman Weil Small Firm Economic Survey

	<u>West</u>	<u>Pop over 1 million</u>	<u>Sole practitioner</u>	<u>General law</u>
Average gross revenues	\$258,931	\$ 276,986	\$ 199,741	\$ 229,119
Paralegal expense	11,154	12,073	8,138	10,337
Staff expense	35,569	38,246	19,429	34,300
Occupancy expense	16,430	23,371	14,839	16,053
Equipment expense	5,331	9,247	7,456	7,019
Reference expense	2,918	3,121	4,537	3,328
Promotional expense	5,094	7,705	4,591	3,877
Other expense	<u>31,405</u>	<u>33,870</u>	<u>28,132</u>	<u>25,864</u>
Total expenses	107,901	127,633	87,122	100,778
Net to the attorney	\$151,030	\$ 149,353	\$ 112,619	\$ 128,341

The Hourly Cost of Doing Business

Source: Altman Weil Small Firm Economic Survey

	Sole practitioner	Annual charge hours:		
		1,200	1,500	1,800
Average gross revenues	\$ 199,741	\$ 166.45	\$ 133.16	\$ 110.97
Paralegal expense	8,138	6.78	5.43	4.52
Staff expense	19,429	16.19	12.95	10.79
Occupancy expense	14,839	12.37	9.89	8.24
Equipment expense	7,456	6.21	4.97	4.14
Reference expense	4,537	3.78	3.02	2.52
Promotional expense	4,591	3.83	3.06	2.55
Other expenses	<u>28,132</u>	<u>23.44</u>	<u>18.75</u>	<u>15.63</u>
Total expenses	87,122	72.60	58.08	48.40
Net to the attorney	\$ 112,619	\$ 93.85	\$ 75.08	\$ 62.57

Top Ten Tips

- 1. Make efficient use of delegation and leverage**
- 2. Understand and review financial results every month**
- 3. Embrace change**
- 4. Understand the 3 year critical mass standard**
- 5. Always look for ways to distinguish yourself and your practice**

Top Ten Tips

- 6. Maintain strict client intake policies and practices**
- 7. Train your clients—become their trusted advisor**
- 8. Market, market, market**
- 9. Contemporaneous financial housekeeping**
- 10. Implement your plan and frequently reassess your plan**

Closing Thoughts

- **Do not underestimate the power of having a plan of action**
- **Most of your plan will depend on your objectives**
- **You will wear many hats**
- **Invest time and resources in practice management and business development**

“What you do with your billable time determines your current income, but what you do with your nonbillable (investment) time determines your future.”

David Maister

Questions/Comments

Opportunity for Follow-up

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