

Survival In Turbulent Times

Using A Business Plan To Focus The Small Law Firm

By John W. Olmstead, MBA, Ph.D, CMC

In spite of today's tough economy many small law firms are thriving and doing quite well organizationally and financially. A revolutionary new trend is happening in the legal profession that goes beyond the traditional partnership model of law firm governance involving sole practitioners at the forefront. It's not uncommon these days to find a solo owner of a small law firm seeking to build his or her firm without a partner. More and more lawyers are finding that solo ownership has its benefits, and by using the right management tools, can result in a highly successful and profitable firm. We are seeing solo owners going far beyond being simply solo practitioners and building law firms with 15+ attorneys and 30+ total office personnel.

The foundation of most traditional law firms was built on the premise that "two heads are better than one," or in most cases, "several heads are better than one" leading most attorneys to partner with another attorney of equal stature to build a firm. Some of this may be built out of fear as most attorneys are schooled solely on how to practice law and seldom receive any training towards managing a business. Instincts in most cases would dictate that it's better to find someone to share the burden and the responsibilities. But with the right business mindset, a focused firm, a solid business plan, the right team, a deployed staff and the ability to delegate the management of day-to-day operations, being a solo owner can be a wise choice.

Small firm partnerships are also finding that being small in today's world can be an asset. With smaller and simpler governance structures and focused practices they can innovate and implement faster than larger firms. Many larger firms are often characterized by:

- n Poor, slow, and ineffective decision making
- n Ineffective firm leadership and governance
- n Internal politics and infighting
- n Micromanaging
- n Management by committee
- n Lack of influence and ability to effect change.

Challenges

The 21st century is presenting law firms with new challenges (Olmstead, 1998). The general business economy is in turmoil and law firms are facing new risks and uncertainties. Clients are no longer tolerating arrogance and mediocre services. Clients are holding law firms to higher service standards. In order to prosper in the 21st century, law firms are going to have to drastically change their models for conducting business. Organizational performance, effectiveness, and leadership must rise to higher standards. General management, problem solving, and action taking skills must be enhanced. Firms will have to improve their overall marketing initiatives. This will require many firms to improve their overall management effectiveness and use every management tool available. Law firms will need to identify "best management practices" that can be employed to enhance management effectiveness.

The biggest challenge facing solo owners and partners in small firms is the constant need to develop innovative ways to streamline productivity and improve the firm's bottom-line, while at the same time, maintaining a proactive leadership role in the firm. This can sometimes be a daunting task for even the most organized and focused leaders. To help keep things in check many sole business owners and small firm partners are using business plans

to focus and direct their firms. Business plans are helping firms gain direction and ultimately improving productivity, profitability and organizational focus.

Law firms rely on business plans to help steer the firm so that solo owners and partners can focus on practicing law. Juggling between clients and playing the dual role of practicing attorney and managing attorney is a difficult task and having a plan to help steer the firm has proven helpful for many firms. Having an effective roadmap helps keep the firm running in a straight line towards its goals and helps avoid a crisis management mentality.

Why Have A Business Plan

One of the major problems facing law firms is focus. Research indicates that three of the biggest challenges facing professionals today are: time pressures, financial pressures, and the struggle to maintain a healthy balance between work and home (Canfield, 2000). Billable time, non-billable time or the firm's investment time, and personal time must be well managed, targeted and focused. Your time must be managed as well.

Today well-focused specialists are winning the marketplace wars. Trying to be all things to all people is not a good strategy. Such full-service strategies only lead to lack of identity and reputation. For most small firms it is not feasible to specialize in more than two or three core practice areas.

Based upon our experience from client engagements we have concluded that lack of focus and accountability is one of the major problems facing law firms. Often the problem is too many ideas, alternatives, and options. The result often is no action at all or actions that fail to distinguish firms from their competitors and provide them

with a sustained competitive advantage. Ideas, recommendations, suggestions, etc. are of no value unless implemented.

Well designed business plans are essential for focusing your firm. However, don't hide behind strategy and planning. Attorneys love to postpone implementation.

- n Find ways to focus the firm and foster accountability from all.
- n Keep strategy and planning simple.
- n Undertake a few projects at a time that can be realistically accomplished.
- n Delegate tasks across the firm.
- n Build upon initial successes and move to more complex strategies, which will require more difficult degrees of change.
- n Adopt management structures that enable the firm to act decisively and quickly. Replace structures that do not support such a culture.

What Is A Business Plan

A business plan is no more than a roadmap for your business. Developing a business plan is like planning a trip when you know there will be detours along the way – you just don't know where. You would plan the trip by mapping the route, fully aware you'll have to make changes frequently. Operating a law firm without a business plan is like taking a trip without a trip plan. You will end up somewhere – but possibly not where you want to be. So just like planning a trip — you prepare a trip plan for your business and then work the plan and deal with detours when they occur.

Elements of an effective business plan should include:

- n Decision as to direction of the firm
- n Data collection and review
- n Identification of problems/opportunities/key issues
- n Action plans
- n Implementation and follow-up mechanisms

According to a recent survey conducted by the Legal Marketing Association (LMA), 59% of the responding law firms (ranging in size from the largest to 45 attorney firms) have formal written strategic plans and 55% have marketing plans. (Survey, 2001). Smaller firms have a much lower experience. In our experiences with smaller law firms we are finding that fewer than

15% have formal written strategic or business plans.

I consider success to be achievement of measurable results as evidenced by achievement of the goals and objectives outlined in the plan and actual implementation of action items. Lawyers and law firms seem to do better at planning than they do at implementation. Larger firms usually are more successful in implementation due to availability of management resources, leadership and functional governance. Smaller firms tend to have problems with implementation. In fact, we frequently recommend that a firm address other management issues prior to engaging in strategic planning. If a firm is having problems implementing day-to-day operational decisions the firm will not be effective in implementing strategic planning initiatives.

Larger firms have the resources to develop strategic plans, marketing plans, and the like. Smaller firms do not have the time or the resources to devote to elaborate planning. For smaller firms we suggest that the process be kept simple and that a simple business plan be developed and used for marketing as well as all other areas of interest.

Where To Begin

Begin with commitment. Solo owners should make a self commitment to fully engage in the process and develop habits to faithfully work the plan. In small multi-attorney firms the partners should make a like commitment. In these firms business plans should be developed at the firm, practice group, and individual attorney levels. Once a commitment(s) have been made it is time to start the following process of developing your business plan:

Step 1 – Direction of the Firm

Begin by completing (all owners and partners) the Business Planning Questionnaire (Appendix A). With more and more attorneys struggling with personal and work life balance issues, planning must examine both personal and professional aspects. After defining personal goals, vision statement, and personal action plans use the questionnaire to focus on the firm and define the following:

Firm Mission Statement

Write a mission statement. The firm mission statement should answer questions such as what is our purpose, what services do we provide and whom do we serve? What are our values and beliefs? In other words what are we selling and to whom?

Firm Vision Statement

Write a vision statement. The firm vision statement is a picture of where and what the firm wants to be in the future. What do we want to be? How do we want to be seen? As a roadmap for the future it represents the major areas of the firm including: marketing, client service, practice areas, human and operating resources, compensation, governance, etc.

Firm Goals

Write out and list your goals for the next five years. Your long range goals should tie directly and be consistent with your mission and vision statements. Each goal should focus on one area of concentration and describe what is to be achieved. Goals follow the following SMART system:
S – they should be specific
M – they should be measurable
A – they should be attainable
R – they should be realistic
T – they should be timely. In other words associated with a completion timeframe.

Step 2 – Data Collection and Review

Review documents and collect data to show evidence of problems and opportunities as well as firm strengths and weaknesses. For example:

External

1. Information on competitors
2. Views and attitudes obtained from client satisfaction surveys
3. Views and attitudes obtained from non-clients
4. Demographic changes – legal service market growth rates, market trends, changes in

client needs and desires.
5. Key trends in legislation and regulations, in business and technology, and in the local economy that could effect legal services.

Internal

1. Financial statements for past three years.
2. Other financial reports illustrating:
 - a. Trends in firm revenue growth
 - b. Trends in lawyer and staff headcount
 - c. Trends in law firm profitability
 - d. Changes in key practice areas
 - e. Changes in distribution of revenue by firm's top ten clients
3. Feedback meetings with attorneys and office staff.

Step 3 – Problems/Opportunities/Key Issues

Using the information obtained in Step 2 identify problems, opportunities, threats and issues that will have an impact upon the firm reaches its goals.

Problems
Opportunities
Threats
Key Issues

Step 4 – Action Plans

Create special action plans designed to deal with problems, opportunities, threats, and issues outlined in Step 3. Provide detailed action steps, sub-steps, responsibility party, deadline, and resources needed. Suggest the following format:

Action Step	Resp	Deadline	Resources
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Prepare supporting documents such as a pro forma cash flow statements and financial statements.

Step 5 – Implementation and Follow-up

Incorporate into the plan a monitoring and follow-up system to insure that the firm does not fall prey to planning paralysis.

After the above steps have been completed you should write up and work your plan.

A business plan is useless unless it is used. Don't create a plan and simply file it. You must actively work your plan. Involve everyone in the firm, delegate action items, and require accountability. Consider it a living document – revise it – update it – change it as needed. Refer to it weekly and incorporate action plan items into your weekly schedule.

Use your plan as your roadmap to your future. Good luck on your journey.

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Appendix A

Business Planning Questionnaire

Personal Goals

This section is intended to help you identify your personal goals in the following areas: Think about the following:

1. What have been the most satisfying work-related activities in your life? The least rewarding
2. What have been the most satisfying aspects of your personal life? The least satisfying?
3. How does your work-related life currently affect your personal life?
4. Do you feel that you spend enough time with your family/friends?
5. Do you plan to retire?_____When?
6. How much money do you currently make?
 - a. Do you want to make more?
 - b. How much more?
7. What aspect of the practice have been most satisfying?
8. What would you like to be doing in your work-related life in five years?

In your non work-related life?_____

9. Why did you go to law school?
10. What percentage of the goals you wanted to achieve by practicing law when you graduated from law school have you achieved?
11. Is your priority being a business person or a lawyer?
12. What field of law interests you the most?
13. What percent of your time do you spend in that field?
14. What part of your law practice do you love and what part do you hate the most?
15. What other complaints do you have about your practice?
16. What one thing would you change to make your law practice more satisfying?

- a. Why haven't you changed it?
- b. How can you go about changing it?

Specific Personal Goals

Your personal goals should tie directly to your personal vision statement.

Financial

- 1.
- 2.
- 3.
- 4.
- 5.

Business/Career

- 1.
- 2.
- 3.
- 4.
- 5.

Fun Time

- 1.
- 2.
- 3.
- 4.
- 5.

Health & Fitness

- 1.
- 2.
- 3.
- 4.
- 5.

Relationships

- 1.

2.

3.

4.

5.

Personal

1.

2.

3.

4.

5.

Contribution

1.

2.

3.

4.

5.

Personal Vision Statement

The mission statement should answer the questions: What my purpose in life? What do I want to do with my life? What are my core value and principles? What are the driving forces that make you unique as an individual?

Personal Action Plan

Firm Mission Statement

The firm mission statement should answer the question. What's our purpose as a firm? What services do we provide? Whom do we serve? What are our core values and principles? It should focus on broad rather than specific areas, but identifies the driving forces and values of the firm that makes it unique. It should use clear language.

Vision Statement

The vision statement should answer the questions, “What do we want to be? How do we want the world to see us?” As a future plan it represents the major areas of the law firm: client service, practice areas, human and operating resources, compensation, governance, etc.

Firm Goals

This section is designed to help you focus on firm goals. It is concerned with your view of what the long range broad goals should be.

Goals should tie directly to the mission and vision statements. Each should focus on one area of concentration and describe what is to be achieved.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

External/Internal Firm Review

External

1. Legal services market growth rates, market shares, market trends.
2. Facts and information on competitors.

3. Views and attitudes of clients.
4. Views and attitudes of non-clients.
5. Key trends in legislation and regulations, in business and technology, and in local economy that could affect legal services.

Internal

1. Trends in firm revenue growth.
2. Trends in lawyer and non-lawyer headcount.
3. Trends in firm profitability.
4. Trends in growth and profitability for key practice areas.
5. Trends in firm cost and efficiency.
6. Trends in productivity by category of personnel.
7. Trends in selected financial and operating areas (uncollected fees, work in progress, staffing leverage, etc.
8. Distribution of revenue by industry or practice classification.
9. Distribution of revenue by top clients.

Strengths & Weaknesses

These are strengths and weaknesses, identified from the data above, that represent a competitive advantage or disadvantage to the firm.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Key Issues

General

- 1.
- 2.
- 3.
- 4.
- 5.

Organizational

- 1.
- 2.
- 3.
- 4.
- 5.

Marketing

- 1.
- 2.
- 3.
- 4.
- 5.

Client Service

- 1.
- 2.
- 3.
- 4.
- 5.

Product & Services

- 1.
- 2.
- 3.
- 4.
- 5.

Financial

- 1.
- 2.
- 3.
- 4.
- 5.

Human Resources

- 1.
- 2.
- 3.
- 4.
- 5.

Technology

- 1.
- 2.
- 3.
- 4.
- 5.

Other

1.

2.

3.

4.

5.

Action Plans

Implementation Schedule

Budget

Pro-forma Financials

Other

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