LAWBIZCOACH

Looking Ahead

How to Make Planning Part of Your Firm's Culture

BY ED POLL

Most law firms struggle with the problem of getting attorneys to accept a firmwide business plan. It's no secret that lawyers tend to be individualistic (and thus reluctant to give up personal control or direction), reactive (believing they must be flexible to accommodate variables that can't be anticipated), and short-term oriented (focusing largely on the contracts, cases, or negotiations they have today).These traits, however, tend to undermine a successful planning process.

The first element of any strategic plan is the firm leadership's agreement to abide by it.

NECESSARY, NOT COMPLICATED

Nevertheless, savvy legal administrators know that planning is not simply an option if a firm wants to survive. Law is a business as well as a profession, and planning is business owners' first responsibility because it is the defining characteristic of the most successful companies. Every company on the "Fortune 500" has a formal corporate plan, as do more than half of the companies on the "Inc. 500" (the most successful small businesses in America). However, only about 10 percent of all companies – the vast mediocre majority – ever undertake the planning process.

A business plan doesn't have to be complicated. It can be as fundamental as identifying the most important and desired business outcomes within a given time period, defining what is necessary to achieve those outcomes, and working toward them consistently. The alternative to doing so is consistently unpleasant. As famed UCLA basketball coach John Wooden, whose teams won a record number of national championships, once said, "Failing to plan is planning to fail."

THE PLANNING FOUNDATION

In my experience, successful planning comes from the top. The firm's primary rainmakers, the management, and managing partner all must be in concert to shape and direct the plan. If the partners are not clear about the overall goals as well as specific objectives and strategies, the planning process is bound to be sabotaged and of little use.

The first element of any strategic plan is the firm leadership's agreement to abide by it. That said, all members of the firm – including associates, paralegals, and staff – need to have input regarding the planning process.

Unless there is continuous open and candid communication among equity partners, and acceptance and buy-in for the business plan chosen by the firm, sooner or later the firm will have a dissolution, whether by withdrawal of individual partners or wholesale departure and formal liquidation. The end result will be the same.

Ed Poll, *Principal*, LAWBIZ MANAGEMENT

Good planning is not static; it is meant to be a guide against which to judge actions or outcomes. If a certain aspect of a plan is not working or needs adjusting, change it.

Communication is a continuous requirement to ensure that individual agendas do not subvert the plan. In divorce practice, lawyers frequently hear clients say that "we grew apart." This reflects failure to communicate openly and candidly as time passes. Law firms, small and large, are subject to the same need to combine the planning process with communication that is open, candid, and frequent.

THE PLANNING MECHANISM

With agreement and communication as parts of the foundation, the firm (with designated partners and administrators working together) needs to create a planning mechanism that focuses on gathering relevant historical information and translating that into recommended actions. This information will shape marketing and financial plans, and it will come from inside and outside the firm.

Marketing information relevant for planning includes basic demographic information about your current client base (including number of clients, billings, scope of services, and legal requirements) and background research about external marketing trends. Financial information encompasses the annual financial statements and tax returns for the previous three to five years, billing and accounts receivable records, and bank statements showing funds in general and trust accounts.

A planning committee should be responsible for working with this information to develop the plan. Although opinions vary on who should sit on such a committee, I believe selected associates and staff (and particularly the firm administrator) should be members. Firm owners are sometimes reluctant to give non-partners access to sensitive information, but the most perceptive non-partners already have an intuitive feel for the basics.

Once the marketing and financial plans are developed through discussion and analysis of current information against the partners' agreed-upon goals, an all-firm meeting or retreat is the ideal mechanism to secure approval. These literally get everyone together in the same room, where concepts can be discussed, ideas and questions raised, and acceptance established. A physical show of hands can serve as a powerful validation of the firm's new direction.

THE MARKETING PLAN

Any firm depends on clients, so getting and keeping them are critical to your success. A marketing plan helps you to see who these elusive people are and how to attract them.

The marketing plan begins by creating a profile of the firm's ideal clients, so the focus can be on this target, not everyone. You can increase your revenue substantially by focusing on demographics, occupation, location, financials, and other characteristics of clients who will give you the work that you want.

The No. 1 place to find these ideal clients is on your current client list. A statistical premise called the Pareto Principle holds that, over time, most results are produced by only a few causes, generally in a proportion of 80 to 20. When applied to law firm marketing, this produces the conventional wisdom that 80 percent of a typical law firm's revenue is produced by 20 percent of its clients – the large, heavy hitters. It follows logically that such clients should be the initial focus of your marketing plan. Every firm should know in detail what is done for its largest clients, how profitable that work is for the firm, and what opportunities exist to get more work. Don't, however, fixate on these large clients so much that other ideal targets are not pursued. The loss of a large client is such a major risk that you may want to consider one of the most important business axiom: Make sure no single client exceeds 10 percent of your total planned revenue. I have seen too many firms focus on a very few, larger clients and be severely damaged when the fees from that client fail to continue – due to dissatisfaction, change of billing attorney, merger, recession, or other unanticipated problems.

THE FINANCIAL PLAN

The firm's financial plan must focus on profitability. One key element is integrating how many hours your lawyers bill with how much money you collect. The goal is to have a high collected-to-billable ratio – well over 90 percent. Plan this realization on two levels: the billed-to-billable ratio (the percent of billable or booked hours billed), and the collected-to-billed ratio (percent of billed work collected).

Cash flow and receivables are other key financial planning elements because they integrate directly with individual lawyer performance. A good benchmark is to prepare a 12-month rolling plan for cash receipts and payments, such that as you conclude the current month, you look at the 13th month and add it into your plan, adjusting all of the other months if needed based on new information. Studies show that a bill more than 60 days past due can still be collected about 89 percent of the time. However, that drops to a 67 percent likelihood of collection after six months, and to a 45 percent likelihood after one year. Your financial plan should set definite benchmarks for the prompt collection of receivables.

MEASURING PROGRESS

The firm's marketing and financial plans must have measurable goals, as serendipity and whim are not the best paths to success. Set objectives and stick to them. Every law firm is a business, and a business that grows without a clear idea of overall goals and specific benchmarks to measure them will soon find itself floundering. An excellent acronym, SMART, delineates what's required for a plan to be measurable.

- **Specific:** The issue is not more money, it's how much … not more clients, but what kind.
- **Measurable:** If you can't measure your performance, you'll never know what you've achieved.
- **Achievable:** Set near-term targets that are realistic and continually raise the bar.
- **Reasonable:** Don't set yourself up for failure with unreasonable expectations for growth or profitability.
- **Timely:** Give yourself an adequate timeframe that still imparts a sense of urgency.

Plans are meaningless if people are not held accountable for them. One forceful approach would be to determine compensation bonuses/rewards on the basis of plan development (a realistic and aggressive plan merits more compensation) and achievement of plan goals. Failure to achieve goals, however, should not be punished without consideration of the reasons for not achieving the goals: personal illness, change of clients' business conditions, hard work but unrealistic goals, etc. Consider explanations, not excuses. This is a matter of finding out why – and changing future action as may be appropriate, not finding fault.

MAKING CHANGES

Good planning is not static; it is meant to be a guide against which to judge actions or outcomes. If a certain aspect of a plan is not working or needs adjusting, change it. The beauty of a flexible plan is that it can be revised to better reflect the reality of changing situations to produce the desired outcome.

When approached the way we have outlined – as an ongoing process of communication, assessment and measurement – planning will become institutionalized in the life of the firm, and the firm will experience even greater success.

about the author

Ed Poll is the Principal of LawBiz Management and an internationally recognized coach, law firm management consultant, and author. His LawBiz Coach column appears regularly in *Legal Management*. He has also written 11 books, including *Attorney & Law Firm Guide to the Business of Law, 2nd Ed.*; *Selling Your Law Practice: The Profitable Exit Strategy*; and his latest, *Disaster Preparedness & Recovery Planning for Law Firms: A LawBiz Management Special Report*. Contact him at *edpoll@lawbiz.com* or (800) 837-5880. Visit his Web site, *www.lawbiz.com*, to subscribe to his free monthly newsletter, LawBiz Tips, or his blog, *www.lawbizblog.com*.