Business Plans and Practice Structures

Developed with ANDREW CHEN, PRINCIPAL, CROWE HORWATH

When you start your firm, one of the most important steps you can take is to prepare a business plan. A business plan focuses your mind on what matters to your firm’s success. It’s very much like a road map. It shows you where your firm is now - at start-up phase - the destination you want your firm to reach, and the strategic route to get you there.

The benefits are:

- Greater understanding of your business
- Stronger basis for day-to-day control
- Provides a blueprint for the future of your firm

Preparing a Business Plan

1. Know the type of law firm you want to be

What type of work would you like to do and what will your firm look like? Are you aiming to be a national family law firm? A local firm of property experts offering conveyancing services? Or a sole practitioner in a regional centre specialising in family law?

Working out the answer to this question will help inform every step that follows.

For example: Your practice will specialise in wills, estates and succession planning for predominately Sydney-based clients.

2. What structure will your law firm have?

Choosing an appropriate business structure for your firm is a fundamental decision when you start your practice. Getting it right is essential. All sorts of financial and tax consequences can arise if you choose the wrong structure and decide to change it later.

Types of structures
An effective firm structure is one that is flexible, adaptable and scalable. The most common are:

- Sole proprietor practice
- Partnership of Individuals or Entities
There are a number of factors that will influence your choice of firm structure:

- Protection of assets and income
- Ease of entry and exit
- Funding requirements
- Flexibility to allocate income
- Wealth creation
- Costs of setting up and maintaining the structure
- Access to cash from the firm
- Tax effectiveness
- Personal tax preferences of practice owners and their families

For your firm to grow, and for you to effectively manage your practice both operationally and financially, it is important to invest time in developing your firm’s business plan and strategic initiatives, and to have an appropriate firm structure in place.

For example: you are going to practice as a sole practitioner.
3. **Prepare a SWOT to assess your strengths, weaknesses, opportunities and threats**

Now you have your firm in mind, have a think about what you do well and not so well internally (your strengths and weaknesses). These should be realistic, giving you a good picture of your firm.

Then take some time then to look outside your firm. For the kind of firm you are proposing, what issues exist that would impact on, or contribute to your success? These are the threats and opportunities for your firm.

<table>
<thead>
<tr>
<th>SWOT example for a law firm specialising in wills, estates and succession planning to predominantly Sydney-based clients.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
</tr>
<tr>
<td>• Principal is a senior partner with 30 years experience in the industry and an accredited specialisation in Wills, Estates and Succession Planning</td>
</tr>
<tr>
<td>• Have one client who is willing to follow to the new firm</td>
</tr>
<tr>
<td>• Principal has a strong media profile as an expert in the field</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
</tr>
<tr>
<td>• Have no access to support services, eg IT, accounting, marketing</td>
</tr>
<tr>
<td>• Have no junior legal staff</td>
</tr>
<tr>
<td>• Need to find premises</td>
</tr>
<tr>
<td>• Have limited personal savings to tide the business over during lean months</td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
</tr>
<tr>
<td>• Australia is an ageing population</td>
</tr>
<tr>
<td>• ‘Grey nomads’ look to get their affairs in order before setting out on retirement adventures</td>
</tr>
<tr>
<td>• There is a growth of people in their 20s and 30s staying at home for longer and receiving help from their parents when purchasing their first home</td>
</tr>
<tr>
<td>• The Law Society has just released a ‘sole practitioners portal’ with information on how to set up a small practice</td>
</tr>
<tr>
<td><strong>Threats</strong></td>
</tr>
<tr>
<td>• There are many other firms specialising in Wills and Estates in the same area – lots of competitors</td>
</tr>
<tr>
<td>• Rental prices for CBD based offices are increasing</td>
</tr>
</tbody>
</table>
4. **Examine the key issues facing your new firm**

Using your SWOT analysis, take a look at the issues you may be confronted with in starting your new firm. Have you identified threats that also correlate with your weaknesses? Note these.

Are there opportunities that play to your strengths? Note these too.

Keep working on all possibilities until you have a list that will help you determine if your dream firm is a good opportunity or if you are going to have to overcome a number of negatives to get it off the ground.

**For example:** Key issues you might face, based on the SWOT analysis:

**Issues - positive:**
- There are opportunities to grow client base given the correlation between skill set and demographics of the population
- Opening a sole practice gives more time to focus on growing the business rather than worrying about staff management

**Issues - negative:**
- Significant work will need to be done to establish a solid client base before a profit is turned
- The firm can remain open for less than a year without significant growth in clients and income
- Need to build relationships with support service providers to make sure the back-end of the firm is set up properly

5. **Establish what legal services your firm will provide**

Based on the previous exercise, what are the core services you will offer to clients? Generalist family law advice? Residential conveyancing? Specialist intellectual property and trade mark advice?

Choose a few areas you think you could really succeed at - taking into account your SWOT and resulting issues.

**For example:** Your expertise is in wills, estates and succession planning. There are clear benefits with focusing the business on these areas.

6. **Decide where you want your firm to be in three years. This is typically referred to as your ‘vision’ or ‘goal’**

A goal should be your overarching ambition for your firm. It should be measurable in the sense that you will be able to identify when you have reached it, but should also be aspirational enough to maintain enthusiasm if times get tough.

**For example:** Your goal is to be the premier advisor in wills, estates and succession in Sydney.
7. Identify achievable and measurable objectives that feed into your goal

You objectives will directly relate to achieving your goal. You should have a few objectives - each covering a different area of your business.

As a basic guide, try for the following areas:
- Financial objectives
- Client and business development
- Operations, involving processes and activities needed to help deliver legal services
- Staff

Example of objectives

1. **Financial**: To generate a profit of $10,000 per month within twelve months
2. **Client and business development**: To be recognised as an expert firm in self managed superannuation funds
3. **Operations**: Implement a practice management system within the first six months of opening.
4. **Staff**: Grow to an office of no more than 10 staff necessary to achieve business goals

8. Identify key strategies that will help you reach your objectives

How are you going to achieve your objectives?

Rather than talking about exactly each action you will undertake (we will get to actions next), what categories will your actions fit into? For instance, some strategies could include: building awareness of capabilities, having well trained staff, reinforcing a culture of the ‘open door policy’.

Each of these strategies would drive the achievement of an objective and in turn would have a range of relevant related actions.

Example of strategies to achieve your objectives

- **Objective**: To be recognised as an expert firm in estate planning
  - **Strategy 1**: Build awareness of firm’s capabilities
  - **Strategy 2**: Generate five new leads each month

9. Develop action plans for achieving your objectives

What specific activities are you going to do to achieve your strategies?

Examples might include: Telephone five current clients to invite them for coffee to discuss your new firm’s capabilities, send your support staff on the Law Society’s Legal Support Training Program, hire an accountant.
Whatever actions you choose should relate to your strategies and ultimately your whole plan. Will hiring an accountant ultimately help you achieve your goal? If the link isn’t clear, review the strategy and the objective to which the action relates. If the action is more of a “nice to do” rather than creating a clear causal link, remove it.

You will be busy enough without giving yourself more (unnecessary) work to do.

Example of an action plan for achieving your objectives

**Objective:** To be recognised as an expert firm in estate planning

**Strategy 1:** Build awareness of firm’s capabilities

**Actions:**
- Place an advertisement in the Law Society Journal every second month
- Investigate relevant sponsorship opportunities, eg conferences or CLE seminars in wills, estates and succession
- Seek out opportunities to write articles for legal publications and submit at least six articles each year
- Present at least one paper on estate planning at an industry association conference
- Identify prospective clients and call them asking for an opportunity to meet and discuss their needs

**Strategy 2:** Generate five new leads each month

**Actions:**
- Telephone five current clients to invite them for coffee to discuss your new firm’s capabilities
- Join the Sydney Chamber of Commerce to make new contacts
- Attend Law Society networking opportunities

10. Prepare financial budgets and cashflow of funding requirements.

By opening a sole practice, you are running a small business and need to have a good understanding of the associated financial commitments that accompany this.

At this stage, you should think about finding a good accountant to help you work out what kind of revenue you will need to generate in order to achieve a profit each month. This information will help you work out your funding requirements and what your pricing model will need to be, how long you can give clients to pay their bills and whether you have any contingency built in for slow months and know your funding requirements.

You should also know exactly the term and amount of expenses which will be required for setup as well as any ongoing expenses for the year and when these will be payable.

Finally, have a think about a reasonable expectation of what you would like to earn from your firm, ie the money you will take home as your salary. Your expectations may need to be adjusted depending on your cashflow and funding requirements.

A plan is only good if it is current. Record when you complete actions. Note outcomes. If actions need to be rolled over to a new month, the reasons why should be detailed.

Also consider:
- Are you achieving your strategies?
- Have you succeeded on any objectives?

Success or failure gives you the opportunity to review and revise. The key is always to consider what will be the best use of your time.

In addition to progressive reviews, once each year you should allocate time to work on your practice, as opposed to in it:
- Refresh and review your strategies for the year. Work out which ones have worked well and which ones haven’t.
- Write your plans for the coming 12 months.

Planning is much easier if you have someone to bounce ideas off and receive feedback from. Consider meeting with your trusted advisor to undertake this process - such as your accountant, a former colleague or a respected peer.

It is important to remember that writing a plan is not just a “point in time” exercise; it must be ongoing to remain relevant and effective.

*Andrew Chen* is a Principal at *Crowe Horwath*. He specialises in improving financial outcomes for lawyers and legal firms.