

Think Before You Leap



BY JUDY NORBERG

Starting Your Own Firm

Knowing yourself is critical in assessing whether starting your own law firm will be right for you. Apart from projecting revenues and expenses, establishing a client base, and handling the details of office leasing and marketing, knowing what's motivating you and what you hope to achieve are essential to making a good decision.

You've been thinking about it for a long time—starting your own law firm. You've gone so far as to talk with another partner about the possibility. Reasons for taking the leap vary, but most often attorneys consider leaving their current firm because of quality-of-life issues, perceived inequities in compensation distribution, or disagreements regarding the direction of law firm management.

There are often misconceptions about the pros and cons of owning a firm. As with any idea for change, the positives can be romanticized and the negatives can be minimized. Approaching the topic with realistic and concrete information helps put things in perspective.

From my experience, there are five essential components to starting a successful new law firm:

- (1) A portable and sustainable client base
- (2) A consistent revenue stream

- (3) A strong vision
- (4) Leadership ability
- (5) Management skills

Portable and Sustainable Client Base

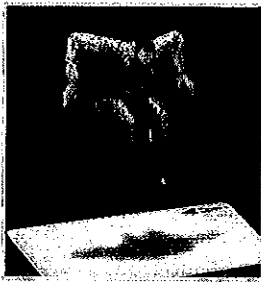
Before starting your own law firm, you must ask yourself: "Will my clients go with me?" This can be a complicated question to answer truthfully. It is a known fact that clients buy lawyers, not law firms. However, depending on the complexity of the client relationship and the type of work being handled by your current firm, many lawyers may be involved in work for the client. There may be others in your firm besides yourself who have an excellent relationship with the client. There may be a number of contacts within the client's business who provide work to you and other attorneys in your firm. This is especially true with large clients. Legal ethics rules preclude asking a client to go with you: once you have left your current firm and the client is notified, it is the

client's decision to authorize transfer of their files to your new firm.

How do you know the client will go with you? If your relationship with your client can truthfully be called a long-term and special one, you may be able to answer the question positively. On the other hand, it may be a hard read. A realistic assessment of your client list, coupled with conservative estimates of the percentage of business you may anticipate from each, will give you a good place to start as you approach the next step in your evaluation process—projecting revenue.

Revenue and Budgeting

Revenue is directly related to the client base. Will revenue from your projected client base be sufficient to support your new firm? You won't be able to answer this question until you begin the budgeting process. Start by reviewing the revenue you have produced directly through your work as an attorney over the past three years (your working attorney



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revenue). Evaluate how much of that work is ongoing and transactional; then project your revenue for each month of a future year, using best estimates. Remember that any revenue you project that isn't directly attributable to your own work will require additional law-firm timekeepers, which is an additional expense. Evaluating what you can do yourself, especially in the early stages of starting your firm, is important to estimate the projected cash flow. On the other hand, knowing the type of support your practice requires is essential in appropriately structuring your new firm.

How do you project your start-up and ongoing costs? The costs associated with running one's own firm (even a small firm) can be surprising. The three major costs of any law firm are:

- (1) employees;
- (2) occupancy;
- (3) technology.

Technology includes hardware and software. Sophisticated software applications have become an integral part of today's law practices. Those costs alone can be astounding.

In addition to employee compensation, rent and technology, other budget items include:

- (4) insurance;
- (5) employee benefits;
- (6) furniture;
- (7) professional expenses;
- (8) marketing expenses;
- (9) office operating expenses.

These budget items are standard with any practice, but carefully reviewing your specific needs is an important exercise when developing your budget.

After completing your comprehensive budget, you will have an understanding of the capital needed to cover start-up expenses and ongoing expenses until you can establish cash flow. Once you start your new firm, invoicing promptly for your services is essential. Even with bank financing, if you focus on promptly receiving cash for your services you not only will reduce your stress but also will make your banker happy.

Most new law firms require an outside source of revenue to fund their start-up.

To obtain such funds you need to approach your bank with your "business plan." Normally, banks will not extend credit based only on a business plan. Rather, they require in addition a current personal financial statement that shows the borrower has sufficient net worth to support a personal guarantee. Your personal net worth will dictate the amount of credit a bank will extend to you.

Vision

You must have a vision that you can articulate of what you want your firm to represent, what you want it to become, and whom you want to represent. This goes beyond developing a mission statement. It involves understanding your own values and how you want to impart those values to your current and future employees. In this increasingly competitive legal market, it becomes more difficult to differentiate law practices. If you need help in defining your vision, obtain that help during your development process. Also, recognize if you need assistance and support in developing client relationships in order to achieve a solid client base.

Leadership

Managing and working in one's own smaller office requires independence and self-discipline. A smaller firm is no place for a big ego. On the other hand, a smaller firm requires a strong leader—a leader who is able to impart his or her vision and live it. Running a law firm is like raising children—employees learn what they live. In your own firm, your job is not just to find and do legal work; but it is also your obligation to define the culture and guide the firm. Others will be depending on you.

Management Skills

Running one's own firm takes time. Will you have the time available to manage (while billing), the self-discipline to handle the multitude of day-to-day issues that arise, and the management and leadership skills to create the new environment that you envision? Lawyers who have started their own firms are always amazed at the amount of time that is spent on people, management, and financial issues. The ability to multitask is essential in running your own

firm. The proverbial "hat rack" by your door will never have just one hat on it again. Tasks that were formerly someone else's job—answering a telephone occasionally (other than your own), or making your own photocopy and/or coffee—may now be yours.

Making the Decision

After completing the evaluation process, more than a few attorneys have chosen not to start their own firm. When the reality of personal revenue and debt sink in, you may conclude that it's too daunting an undertaking. Realistically evaluating one's client base can also be sobering.

Loss of camaraderie with other attorneys also can be an issue for one starting a new firm. If you have been part of a larger firm, you may depend on the relationships that you have built (more than you previously acknowledged) to provide you with a support system. Starting your own smaller firm may require developing a new support system.

Staying with your current firm and working to effect changes that are meaningful to you is one alternative. Another option is finding another firm where you and your practice are a better fit. None of these options should be ignored if they have potential to give you greater satisfaction in your work.

Whatever option you ultimately choose, completing your client base evaluation, performing the recommended revenue and budgeting exercises, and giving thought to your vision, management and leadership skills will give you useful insights on whether starting your own firm is right for you and what you really want. ▲

Judy Norberg is the owner of Norberg Consulting and specializes in managing the business aspects of starting a new law firm. She also consults with small to mid-size law firms on issues related to law firm administration.

