10 STEPS to MASTER TRANSITION PLANNING

PerformLaw

Do Law Firm Management Right!

www.PerformLaw.com
Phone: 504.858.7428

You've built a great firm and had a great run. It's time to figure out what comes next.

Building a great law firm came with sacrifices and rewards. Now it is time to plan for the future of your firm firm to continue with a different ownership group.

You may worry that successor lawyers are not ready or about buyout economics. Unfortunately, if you wait too long, your best people may leave causing clients to lose confidence.

Don't let the investment and hard work you have put into your firm could end up benefiting your competitors.
Start planning today.

Find the 10 key steps to master transition planning on the following pages.

.

1 Prepare work-life timelines for all attorneys within 10 years retirement age.

Preparing work-life timelines provide a planning horizon for a firm and forces aging partners to consider their successors. Introducing replacement lawyers into a client account at least three years before a partner's retirement can significantly improve client retention probability.

Most small and mid-sized firms have a non-interventionist policy regarding partner and client relationship. It's hard to insert a successor lawyer into a client account without the full support of the retiring partner and key members the account team. Since we have found firms to achieve more success with incentives rather than penalties, we recommend approaches that encourage retiring partner cooperation.

2 Think strategically when staffing.

Strategic client staffing ensures that younger lawyers build the essential relationships among the firm's current clients, which will make competitive challenges more difficult.

This staffing approach seeks to align case assignments with skill development or client transition objectives. For example, assigning a senior associate needing trial experience to cases that are going to trial, or working a successor lawyer into a client's most important matters.

Senior partners should evaluate their client staffing assignments at least three years before any planned transition. If no existing resources are available, we recommend a targeted recruiting process.

3

Focus on attorney development.

A firm that focuses on attorney development can better determine the attorneys best suited to serve client needs and identify those who would perform better in another role.

In addition to billable expectations, a quality lawyer requires time commitments in the following areas:

- Client service;
- Marketing;
- Training and mentoring ;
- Professional recognition;
- Skill development;
- Leverage and supervision;
- Recruiting; and
- Basic law firm economics.

Firms with a solid attorney development system typically operate more profitably. They can also ready lawyers for future leadership and management positions.

Develop an efficient recruiting process.

4

Most good laterals have several opportunities. The firm that evaluates a candidate quickly and offer a transparent economic deal has an edge.

When considering lateral hires, firms should efficiently address the following questions:

- Opportunity costs and benefits;
- Impact on revenue and cost and profit per hour;
- Compensation, and equity slotting if appropriate; and
- Impact on cash flow and current year earnings.

Smart laterals will want to see current compensation levels of current partners with similar levels of profitability. Having all data readily available will help a law firm to secure the best candidates.

5

Ensure compensation is competitive.

A data-driven compensation plan that pays at competitive market levels can reconcile the perceived and actual value of a lawyer's economic contributions – there is no better gauge of value than what a competent competitor will pay. Accomplishing this level of acceptance will remove a large obstacle inherent in the practice transition process.

With a market-based compensation system, a transition compensation feature, and a process for the orderly transition of ownership interests, firms can will significantly increase their ability to pass from one generation to the next.

6

Use objective methods when evaluating buyout pay decisions.

Using an objective process-oriented approach to arrive at a buyout price and structure removes much of the emotion from the negotiation. Firm's that have the data to complete the recommended analyses can set expectations early in the process and create a model for future buyouts.

The keys to setting transition compensation include an objective process oriented approach; setting expectations early in the process, and a model to ensure consistency.

7

Develop these key policies.

Policy development is essential for promoting consistency and building trust among partners, associates and staff. Firms should identify areas that may impact a smooth retirement process and create policies to ensure the provisions accomplish the firm's objectives. Policies can cover areas such as :

- Associate progression criteria
- Partnership admission criteria
- Transition period requirements
- Origination sharing
- Partner equity
- A valuation approach to firm assets
- Post retirement compensation

Know the costs associated with transition planning.

8

A law firm transition plan can span over several years, requiring substantial investments from the remaining partners. Quantifying the potential impact on the firm's profits and, ultimately, the income of the partners, informs plan development.

For example what are the costs associated with transition compensation? And how will remaining partners be affected? What are the projected profits of particular client work post-transition? What effects will changes in staffing have on client work post-transition.

Healthy firms that have the right information can expedite the process. Understanding these costs and adequately preparing for contingencies will add credibility to a firm's practice transition process.

9

Use a process for valuing the firm.

As any other business, a law firm can have market value to the remaining partners. Determining its actual value can help a firm to make informed decisions involving transition planning.

Valuing a law firm can seem complicated, but mainly, it comes down to three elements:

1. **Book Value of Equity**

Subtracting total liabilities from total assets.

2. **Platform Value (going concern value)**

Analysis and comparison with the benefits and costs of starting a new firm

3. **Value of any transitioned business**

Value of business based on the individual agreements between retiring partners and those benefiting from the transitioned client relationships.

Continuously build the firm's going concern value.

10

A firm's going-concern value includes is the value of the the firm's various systems, processes, procedures, trained staff, reputation and any unique distinctions. Building going concern value requires moderizing the firm's business processes to the point that they become a platform. This platform can transcend the reputation and referral network of the senior partners.

To build going concern value, firms should adopt cloud-based technologies and software applications to provide needed structure including: Client case management software; Cloud-based email and Office; Automated Forms and Electronic Signature Application; Integrated Document Management with Secure Email Transfer; CRM Software; Marketing Automation Software.

This technology will promote efficiency, provide a competitive advantage and bind clients to the firm.

ENSURE THE LONG TERM VIABILITY OF YOUR LAW FIRM

If you are concerned about your next generation of leadership or want to ensure a solid future for your firm, PerformLaw can help.

We can help your firm to assess the relevant risk factors and create a buyout structure. In removing the economic disincentives for senior partner retirements, your firm can increase the chances of a successful transition.

CONTACT US NOW

PerformLaw

Do Law Firm Management Right!