10 STEPS TO LAW FIRM TRANSITION PLANNING

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With an estimated 65% of equity partners approaching retirement age over the next decade, most attorneys currently working in a law firm will be affected by the challenge of transition planning. While this statistic is notable, most law firms pay little attention to partners' plans for retirement.

Without careful planning, the investment and hard work you have put into your firm could end up benefiting your competitors. In this eBook, we give you 10 essential steps to prevent this negative possibility by developing a transition plan that works.

Firm Administrators and Lawyers Are Busy Enough

The sustained focus it takes for a firm to accomplish successful transition planning is often difficult for administrators and lawyers who must manage daily business demands and pressing client service issues.

PerformLaw can help. Working in conjunction with your firm's in-house resources, we can help your firm to be focused and deliberate in their efforts.

Don't wait. Start now.

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1

Prepare work-life timelines for all attorneys who are within 10 years of retirement age.

Work-life timelines provide a planning horizon for a firm. Law firms should prepare work-life timelines for all attorneys who are within ten years of retirement age. It is our experience that most attorneys seriously consider retirement between age 68 and 70.

Preparing work-life timelines in advance 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

Be strategic with staffing.

Smart competitors will seize any possible opening in a client relationship. A firm that is ready for these challenges has a definite advantage. 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 who needs 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.

When a law firm focuses on developing its attorneys, it can better determine who is best suited to serve a client's needs and identify those would perform better in another role.

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

- Client service fundamentals;
- Personal development;
- Marketing competence;
- Training and mentoring contributions;
- Professional profile and peer recognition;
- Skill development;
- Leverage and supervision;
- Recruiting; and
- Basic law firm economics.

A quality attorney development system enhances a firm’s ability to operate more profitably and 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 can evaluate a candidate quickly and offer a transparent economic deal has an edge.

When considering potential lateral hires, firms should be able to efficiently address questions involving:

- 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.

Creating a streamlined process that can simulate compensation post admission (equity is essential) is ideal. Smart laterals 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 attorney compensation is market competitive

In addition to promoting profitable behaviors, a market sensitive compensation plan can produce a very competitive firm, one that is ready to support a transition process for their most successful attorneys.

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.

Be objective with buyout pay decisions. 6

Many personal reasons motivate people to continue working rather than retiring. One significant factor for this is the lack of of remuneration for a senior partner's income generating asset. Removing the economic disincentives for senior partner retirements increases the chances of a successful transition.

Using an objective process-oriented approach to arrive at a buyout price and structure removes much of the emotion from the negotiation. Firms 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

Be disciplined in policy development and implementation.

If law firms wish to ensure client business continuity, a disciplined approach to policy development and implementation is necessary. 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
- Mandatory retirement with/ without a transition
- Transition period incentives and requirements
- Origination sharing policy
- Basis for transferring equity between partners
- New partner and lateral partner equity policy
- Capital requirements tied to ownership
- A valuation approach to firm assets
- Post retirement compensation

8

Understand the costs associated with transition planning.

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 potential changes in staffing have on client work post-transition?

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

9 Know the firm's actual value.

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:

- **Book Value of Equity**
- **Platform Value (going concern value)**
- **Value of any transitioned business**

Book Value of Equity is a simple calculation the includes subtracting total liabilities from total assets. Determining platform value (going concern value) requires a careful analysis and comparison with the benefits and costs of starting a new firm. Finally, when paying retiring partners for the clients that a firm retains, firms should have 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 modernizing 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. Such applications include; 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.

PerformLaw for Your Firm

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

To learn more about our transition planning services and other services we provide, along with how we can help your firm, please contact us by clicking the link below to schedule a free consultation.

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