Strategy on the Back of an Envelope

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By Neil Oakes

I've just participated in a two-week charity fundraising event, driving 40-year-old cars 5000 kilometres through the Australian outback to raise money for disadvantaged kids. The fleet consisted of 95 pre-1976 vehicles, no four-wheel drive, no engine modification allowed.

This event presented me with a useful metaphor for the business of legal practice. Nearly everyone made it *despite* himself or herself. About two percent of the field had a well-thought-out, well-executed strategy. The rest of us succeeded because our ability to get out of strife was a tiny bit better than our ability to get into it (sound familiar?).

So too law firms. Leaving aside the elite, how many firms really succeed as a direct result of a well-executed strategic plan? Not a lot, I suspect. In fact, between 1980 and 2007, it probably took effort *not* to succeed. To fail, one needed a dysfunctional partnership, a bad premises deal or a propensity to pay people way too much: these were pretty much the only ways to stuff it up. Oddly enough, some folk did manage the trifecta.

Times have clearly changed. Success doesn't just happen by muddling through. Even small firms should invest in this list of must-haves:

- A well-thought-out strategy – they know what they want to be and what they don't want to be;
- A leverage structure with a balance between relatively junior solicitors and senior solicitors – not all one or the other;
- An understanding by all fee earners of 'minimum acceptable contribution';
- A clear pricing strategy, regardless of methodology (fixed fees, hourly rates, scale, perceived value or whatever). The best performers keep all of these possibilities in their tool kits;
- An understanding of cost of production;
- A management structure with clear objectives and the support of partners;
- Leadership as well as management;
- Good financial housekeeping (price, WIP and debtor management).

My Edge colleagues and I have written, over the years, about all of the above. We continue to assist firms with pragmatic implementation.

For the benefit of those who are yet to invest in a robust strategy process, here’s a better-than-nothing, back-of-the-envelope approach to start the ball rolling.

Planning Is Key

In my experience, the best self-help first step in the practice-improvement process is planning. I am not talking about a multi-volume document brimming with colourful flow charts and management clichés. On the contrary, I am talking about a discussion that results in a one-page summary that tells every partner (or sole practitioner) where they are headed. The plan will guide those who have been delegated the responsibility of implementing it.

For this planning session, meet as a partnership (or with a key advisor if you are in sole practice) away from the firm, somewhere where participants won’t be distracted by staff or clients. Give each item full and frank consideration. Business plans in small firms are next to useless without consensus. Partners will simply agree in the meeting and then continue doing whatever the heck they want.

I recommend that the discussion revolve around the following decisions:

	This year	+1	+2	+3	+4	+5
What type of work						
Partner numbers						
Gross fees						
Net profit per partner						
Employed fee earners						
Support staff						
Space (sqm)						
IT commitments						

The Components

- ***What type of work*** – refers to the type of matters the firm is seeking to offer. In considering this, look at those services that you offer now. Consider what you would like to stop doing – or to stop doing within five years. Having done this, consider what you do wish to be doing and add these offerings to the ones that you want to keep.
- ***Partner numbers*** – refers to the number of equity partners. You may wish to include salaried partners here, but I usually put them into the “employed fee earner” section.
- ***Gross fees*** – refers to the total fee billings of the practice (excluding disbursements).

- ***Net profit per partner*** – refers to the desired profit per partner. When you are considering desired profit, remember that as a principal you should receive a reasonable pay for your time and effort, and a reasonable profit.
- ***Employed fee earners*** – refers to the number of employed solicitors, associates, non-equity partners and paralegals. (Full-time equivalent, so someone may be 0.5 paralegal and 0.5 support.)
- ***Support staff*** – refers to all support staff in full-time equivalents.
- ***Space (sqm*****)** – refers to the office space required. The average Australian firm uses about 25sqm per person (including public space like reception and meeting rooms). This is not ideal though. I suggest that you allow for about 18sqm/person. (We are told that best practice space utilisation is about 7sqm/person, but this requires significant cultural and operational change.)
- ***IT commitments*** – refers to any foreseen expenditure on technology such as PMS, litigation support, marketing data base, etc.

The best way to approach these discussions is to fill out the actual numbers for this year, then do Year +5 first. Come back and do Year +1 next, then simply ‘join the dots’.

This is a start – a bit rough and ready but better than nothing.

By the way, our “Annual Variety B to B Bash” raised 2.25 million dollars for disadvantaged Aussie kids – admittedly despite most of us, not because of most of us.

Next year I’ll be one of the planners.