Business Plan for a Startup Law Office

The business plan consists of a narrative and several financial worksheets. The narrative template is the body of the business plan. It contains more than 150 questions divided into several sections. Work through the sections in any order that you like, except for the *Executive Summary,* which should be done last. Skip any questions that do not apply to your type of law practice. When you are finished writing your first draft, you'll have a collection of small essays on the various topics of the business plan. Then you'll want to edit them into a smooth-flowing narrative.

The real value of creating a business plan is not in having the finished product in hand; rather, the value lies in the process of researching and thinking about your practice in a systematic way. The act of planning helps you to think things through thoroughly, study and research if you are not sure of the facts, and look at your ideas critically. It takes time now, but avoids costly, perhaps disastrous, mistakes later.

This business plan is a generic model suitable for all types of service businesses. However, you should modify it to suit your particular circumstances. Before you begin, review the section titled *Refining the Plan,* found at the end. It suggests emphasizing certain areas depending upon your type of practice. It also has tips for fine-tuning your plan to make an effective presentation to bankers. If this is why you're creating your plan, pay particular attention to your writing style. You will be judged by the quality and appearance of your work as well as by your ideas.

It typically takes several weeks to complete a good plan. Most of that time is spent in research and re-thinking your ideas and assumptions. But then, that's the value of the process. So make time to do the job properly. Those who do never regret the effort. And finally, be sure to keep detailed notes on your sources of information and on the assumptions underlying your financial data.

If you need assistance with your business plan, contact the DC Bar Practice Management Advisory Service at 202-626-1312.

Business Plan

OWNERS

Your Firm Name
Address Line 1
Address Line 2
City, ST ZIP Code
Telephone
Fax
E-Mail

I. Table of Contents

I. Table of Contents 3

II. Executive Summary 4

III. General Firm Description 5

IV. Services 6

V. Marketing Plan 7

VI. Operational Plan 14

VII. Management and Organization 18

VIII. Personal Financial Statement 19

IX. Startup Expenses and Capitalization 20

X. Financial Plan 21

XI. Appendices 24

XII. Refining the Plan 25

II. Executive Summary

Write this section last.

We suggest that you make it two pages or fewer.

Include everything that you would cover in a five-minute interview.

Explain the fundamentals of the proposed firm: What will your service be? Who will your clients be? Who are the owners? What do you think the future holds for your firm and this practice area in general?

Make it enthusiastic, professional, complete, and concise.

If applying for a loan, state clearly how much you want, precisely how you are going to use it, and how the money will make your firm more profitable, thereby ensuring repayment.

III. General Firm Description

What practice area will you be in? What will you do?

Mission Statement: Many firms have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. If you want to draft a mission statement, this is a good place to put it in the plan, followed by:

Firm Goals and Objectives: Goals are destinations—where you want your firm to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a healthy, successful firm that is a leader in service and that has a loyal client following. Objectives might be annual revenue targets and some specific measures of client satisfaction.

Firm Philosophy: What is important to you in your practice?

To whom will you market your services? (State it briefly here—you will do a more thorough explanation in the *Marketing Plan* section).

Describe your practice area. Is it a growth area? What changes do you foresee in the practice area, short term and long term? How will your firm be poised to take advantage of them?

Describe your firm's most important strengths and core competencies. What factors will make the firm succeed? What do you think your major competitive strengths will be? What background experience, skills, and strengths do you personally bring to this new venture?

Legal form of ownership: Sole proprietor, Partnership, Corporation, Professional Limited liability corporation (PLLC)? Why have you selected this form?

IV. Services

Describe in depth your services (technical specifications, drawings, photos, firm brochures, and other bulky items belong in *Appendices*).

What factors will give you competitive advantages or disadvantages? Examples include level of quality or unique or proprietary features.

What are the fee structures of your services?

V. Marketing Plan

Market research - Why?

No matter how good your service, the venture cannot succeed without effective marketing. And this begins with careful, systematic research. It is very dangerous to assume that you already know about your intended market. You need to do market research to make sure you're on track. Use the firm planning process as your opportunity to uncover data and to question your marketing efforts. Your time will be well spent.

Market research - How?

There are two kinds of market research: primary and secondary.

Secondary research means using published information such as practice area profiles, trade journals, newspapers, magazines, census data, and demographic profiles. This type of information is available in public libraries, bar associations, chambers of commerce, from vendors who sell to your practice area, and from government agencies.

Start with your local law library. Most librarians are pleased to guide you through their practice area data collection. You will be amazed at what is there. There are more online sources than you could possibly use. For more general information, your chamber of commerce has good information on your geographic area. Trade associations and trade publications often have excellent industry-specific data.

Primary research means gathering your own data. For example, you could do your own traffic count at a proposed office location, use Google and the yellow pages to identify competitors, and do surveys or focus-group interviews to learn about consumer preferences. Professional market research can be very costly, but there are many books that show small firm owners how to do effective research themselves.

In your marketing plan, be as specific as possible; give statistics, numbers, and sources. The marketing plan will be the basis, later on, of the all-important revenue projection.

Economics

Facts about your practice area:

- What is the total size of your market?
- What percent share of the market will you have? (This is important only if you think you will be a major factor in the market.)
- Current demand in target market.

- Trends in target market—growth trends, trends in consumer preferences, and trends in service development.
- Growth potential and opportunity for a practice of your size.
- What barriers to entry do you face in entering this market with your new firm? Some typical barriers are:
    - High capital costs
    - High labor costs
    - High marketing costs
    - Consumer acceptance and brand recognition
    - Training and skills
    - Unique technology
    - Staffing issues
    - Communication costs
    - Admission issues in multi-jurisdictional areas
- And of course, how will you overcome the barriers?
- How could the following affect your firm?
    - Change in technology
    - Change in government regulations
    - Change in the economy
    - Change in your practice area

Service

In the *Services* section, you described your services as you see them. Now describe them from your clients' point of view.

Features and Benefits

List all of your services.

For each service:

- Describe the most important features. What is special about it?
- Describe the benefits. That is, what will the service do for the client?

Note the difference between features and benefits, and think about them. You build features into your services so that you can sell the benefits.

What efforts will you make toward client development after an initial matter is closed? Will you continue to market to the client after the initial work is completed?

Clients

Identify your targeted clients, their characteristics, and their geographic locations, otherwise known as their demographics.

You may have more than one client group. Identify the most important groups. Then, for each client group, construct what is called a demographic profile:

- Age
- Gender
- Location
- Income level
- Social class and occupation
- Education
- Other (specific to your industry)
- Other (specific to your industry)

For commercial clients, the demographic factors might be:

- Industry (or portion of an industry)
- Location

- Size of firm
- Quality, technology, and price preferences
- Other (specific to your industry)
- Other (specific to your industry)

Competition

What firms will compete with you?

List your major competitors:

(Names and addresses)

Will they compete with you across the board, or just for certain services, certain clients, or in certain locations?

Will you have important indirect competitors? (For example, enterprises that sell legal forms for do-it-yourself consumers)

How will your services compare with the competition?

Use the Competitive Analysis table below to compare your firm with your two most important competitors. In the first column are key competitive factors. Since these vary from one practice area to another, you may want to customize the list of factors.

In the column labeled **Me**, state how you honestly think you will stack up in clients' minds. Then check whether you think this factor will be a strength or a weakness for you. Sometimes it is hard to analyze our own weaknesses. Try to be very honest here. Better yet, get some disinterested strangers to assess you. This can be a real eye-opener. And remember that you cannot be all things to all people. In fact, trying to be causes many failures because efforts become scattered and diluted. You want an honest assessment of your firm's strong and weak points.

Now analyze each major competitor. In a few words, state how you think they compare.

In the final column, estimate the importance of each competitive factor to the customer. 1 = critical; 5 = not very important.

Table 1: Competitive Analysis

Factor	Me	Strength	Weakness	Competitor A	Competitor B	Importance to Client

Factor	Me	Strength	Weakness	Competitor A	Competitor B	Importance to Client
Service						
Fee to client						
Quality						
Variation						
Image						
Reliability						
Stability						
Expertise						
Firm Reputation						
Location						
Appearance						
Marketing Method						
Credit Policies						
Advertising						
Other						

Now, write a short paragraph stating your competitive advantages and disadvantages.

Niche

Now that you have systematically analyzed your practice area, your service, your clients, and the competition, you should have a clear picture of where your firm fits into the world.

In one short paragraph, define your niche, your unique corner of the market.

Strategy

Now outline a marketing strategy that is consistent with your niche.

Promotion

How will you get the word out to clients?

Advertising: What media, why, and how often? Why this mix and not some other?

Have you identified low-cost methods to get the most out of your promotional budget?

Will you use methods other than paid media advertising, such as the internet, a web site, trade shows, catalogs, incentives, word of mouth (how will you stimulate it?), and network of friends or professionals?

What image do you want to project? How do you want consumers to see you?

In addition to advertising, what plans do you have for graphic image support? This includes things like logo design, cards and letterhead, brochures, signage, and interior design (if customers come to your office).

Should you have a system to identify repeat clients and then systematically contact them?

Promotional Budget

How much will you spend on the items listed above?

Before startup? (These numbers will go into your startup budget.)

Ongoing? (These numbers will go into your operating plan budget.)

Fee Setting

Explain your method or methods of setting fees. For most new firms, having the lowest fee is not a good policy. It robs you of needed profit margin; consumers may not care as much about fees as you think; and competitors can under price you anyway. Usually you will do better to have average, reasonable fees and compete on quality and service.

Does your fee strategy fit with what was revealed in your competitive analysis?

Compare your fees with those of the competition. Are they higher, lower, the same? Why?

How important is your fee structure as a competitive factor? Do your intended clients really make their decisions based upon fees?

What will be your client service and credit policies?

Proposed Location

Probably you do not have a precise location picked out yet. This is the time to think about what you want and need in a location. Many startups run successfully from home, from a virtual office, or from a combination of home and virtual office for a while.

You will describe your physical needs later, in the *Operational Plan* section. Here, analyze your location criteria as they will affect your clients.

Is your location important to your clients? If yes, how?

If clients come to your place of business:

Is it convenient? Parking? Interior spaces? Not out of the way?

Is it consistent with your image?

Is it what consumers want and expect?

Where is the competition located? Is it better for you to be near them or distant?

Distribution Channels

How do you market your services? Where are your target consumers and how do they find you?

Sales Forecast

Now that you have described your services, clients, markets, and marketing plans in detail, it's time to attach some numbers to your plan. Use a *revenue forecast spread sheet* to prepare a month-by-month projection. The forecast should be based on your historical revenue, the marketing strategies that you have just described, your market research, and practice area data, if available.

You may want to do two forecasts: 1) a "best guess", which is what you really expect, and 2) a "worst case" low estimate that you are confident you can reach no matter what happens.

Remember to keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. This is critical if you are going to present it to funding sources.

VI. Operational Plan

Explain the daily operation of the firm, its location, equipment, people, processes, and surrounding environment.

Production

How and where your services generated?

Explain your methods of:

- Service generation techniques and costs
- Quality control
- Client service
- Cost control
- Service development

Location

What qualities do you need in a location? Describe the type of location you'll have.

Physical requirements:

- Amount of space
- Type of building
- Zoning
- Power and other utilities

Access:

Is it important that your location be convenient to transportation or to a type of consumer?

Do you need easy walk-in access?

What are your requirements for parking and proximity to freeway, airports, railroads, and shipping centers?

Include a drawing or layout of your proposed facility if it is important.

Construction? Most new firms should not sink capital into construction, but if you are planning to build, costs and specifications will be a big part of your plan.

Cost: Estimate your occupation expenses, including rent, but also including maintenance, utilities, insurance, and initial remodeling costs to make the space suit your needs. These numbers will become part of your financial plan.

What will be your business hours?

Legal Environment

Describe the following:

- Licensing and bonding requirements
- Permits
- Health, workplace, or environmental regulations
- Special regulations covering your profession
- Zoning or building code requirements
- Insurance coverage
- Trademarks, copyrights, or patents (pending, existing, or purchased)

Personnel

- Number of employees
- Type of labor (skilled, unskilled, and professional)
- Where and how will you find the right employees?
- Quality of existing staff
- Pay structure
- Training methods and requirements
- Who does which tasks?
- Do you have schedules and written procedures prepared?

- Have you drafted job descriptions for employees? If not, take time to write some. They really help internal communications with employees.

- For certain functions, will you use contract workers in addition to employees?

Suppliers

Identify key suppliers:

- Names and addresses

- Type and amount of supplies furnished

- Credit and delivery policies

- History and reliability

Should you have more than one supplier for critical items (as a backup)?

Do you expect shortages or short-term delivery problems?

Are supply costs steady or fluctuating? If fluctuating, how would you deal with changing costs?

Credit Policies

- Do you plan to sell services on credit?

- Do you really need to sell on credit? Is it customary in your practice area and expected by your clientele?

- If yes, what policies will you have about who gets credit and how much?

- How will you check the creditworthiness of new clients?

- What terms will you offer your clients; that is, how much credit and when is payment due?

- Will you offer prompt payment discounts? (Hint: Do this only if it is usual and customary in your practice area.)

- Do you know what it will cost you to extend credit? Have you built the costs into your prices?

Managing Your Accounts Receivable

If you do extend credit, you should do an aging at least monthly to track how much of your money is tied up in credit given to clients and to alert you to slow payment problems. A receivables aging looks like the following table:

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts Receivable Aging						

You will need a policy for dealing with slow-paying clients:

- When do you make a phone call?
- When do you send a letter?
- Do you hire counsel to collect or collect yourself?
- Does your professional liability carrier get concerned if you file suit to collect?

Managing Your Accounts Payable

You should also age your accounts payable, what you owe to your suppliers. This helps you plan whom to pay and when. Paying too early depletes your cash, but paying late can cost you valuable discounts and can damage your credit. (Hint: If you know you will be late making a payment, call the creditor before the due date.)

Do your proposed vendors offer prompt payment discounts?

A payables aging looks like the following table.

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts Payable Aging						

VII. Management and Organization

Who will manage the firm on a day-to-day basis? What experience does that person bring to the firm? What special or distinctive competencies? Is there a plan for continuation of the firm if this person is lost or incapacitated?[1]

If you'll have more than 10 employees, create an organizational chart showing the management hierarchy and who is responsible for key functions.

Include position descriptions for key employees. If you are seeking loans, include resumes of owners and key employees.

Professional and Advisory Support

List the following:

- Accountant
- Insurance agent
- Banker
- Consultant or consultants
- Mentors and key advisors

[1] Comment 5 to Rule 1.3 of the District of Columbia Rules of Professional Conduct urges solo attorneys to have a backup plan.

VIII. Personal Financial Statement

Include personal financial statements for each owner, showing assets and liabilities held outside the firm and personal net worth. Owners will often have to draw on personal assets to finance the firm, and these statements will show what is available. Bankers usually want this information.

IX. Startup Expenses and Capitalization

You will have many startup expenses before you even begin operating your firm. It's important to estimate these expenses accurately and then to plan where you will get sufficient capital. This is a research project, and the more thorough your research efforts, the less chance that you will leave out important expenses or underestimate them.

Even with the best of research, however, opening a new firm has a way of costing more than you anticipate. There are two ways to make allowances for surprise expenses. The first is to add a little "padding" to each item in the budget. The problem with that approach, however, is that it destroys the accuracy of your carefully wrought plan. The second approach is to add a separate line item, called contingencies, to account for the unforeseeable. This is the approach we recommend.

Talk to others who have started similar firms to get a good idea of how much to allow for contingencies. If you cannot get good information, we recommend a rule of thumb that contingencies should equal at least 20 percent of the total of all other start-up expenses.

Explain your research and how you arrived at your forecasts of expenses. Give sources, amounts, and terms of proposed loans. Also explain in detail how much will be contributed by each owner and what percent ownership each will have.

X. Financial Plan

The financial plan consists of a 12-month profit and loss projection, a four-year profit and loss projection (optional), a cash-flow projection, a projected balance sheet, and a break-even calculation. Together they constitute a reasonable estimate of your firm's financial future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your firm.

12-Month Profit and Loss Projection

Many firm owners think of the 12 month profit and loss projection as the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.

Your revenue projections will come from a revenue forecast in which you forecast revenue, cost of services provided, expenses, and profit month-by-month for one year.

Profit projections should be accompanied by a narrative explaining the major assumptions used to estimate firm income and expenses.

Research Notes: Keep careful notes on your research and assumptions, so that you can explain them later if necessary, and also so that you can go back to your sources when it's time to revise your plan.

Four-Year Profit Projection (Optional)

The 12-month projection is the heart of your financial plan. The Four-Year Profit Projection is for those who want to carry their forecasts beyond the first year.

Of course, keep notes of your key assumptions, especially about things that you expect will change dramatically after the first year.

Projected Cash Flow

If the profit projection is the heart of your business plan, cash flow is the blood. Firms fail because they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash.

The point of this worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. But foremost, you shouldn't be taken by surprise.

There is no great trick to preparing it: The cash-flow projection is just a forward look at your checking account.

For each item, determine when you actually expect to receive cash (for services) or when you will actually have to write a check (for expense items).

You should track essential operating data, which is not necessarily part of cash flow but allows you to track items that have a heavy impact on cash flow, such as revenues and operating expenses.

You should also track cash outlays prior to opening in a pre-startup column. You should have already researched those for your startup expenses plan.

Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start-up capital. This plan will also predict just when and how much you will need to borrow.

Explain your major assumptions, especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you provide services in month one, when do you actually collect the cash? When you buy equipment or supplies, do you pay in advance, upon delivery, or much later? How will this affect cash flow?

Are some expenses payable in advance? When?

Are there irregular expenses, such as quarterly tax payments, maintenance and repairs, or seasonal expenses, that should be budgeted?

Loan payments, equipment purchases, and owner's draws usually do not show on profit and loss statements but definitely do take cash out. Be sure to include them.

And of course, depreciation does not appear in the cash flow at all because you never write a check for it.

Opening Day Balance Sheet

A balance sheet is one of the fundamental financial reports that any firm needs for reporting and financial management. A balance sheet shows what items of value are held by the firm (assets), and what its debts are (liabilities). When liabilities are subtracted from assets, the remainder is owners' equity.

Use a startup expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your opening day balance sheet.

Optional: Some people want to add a projected balance sheet showing the estimated financial position of the firm at the end of the first year. This is especially useful when presenting your proposal to a lender.

Break-Even Analysis

A break-even analysis predicts the revenue volume, at a given price, required to recover total costs. In other words, it's the revenue level that is the dividing line between operating at a loss and operating at a profit.

Expressed as a formula, break-even is:

$$\text{Break-Even Revenues} = \frac{\text{Fixed Costs}}{\text{1- Variable Costs}}$$

(Where fixed costs are expressed in dollars, but variable costs are expressed as a percent of total revenues.)

Include all assumptions upon which your break-even calculation is based.

XI. Appendices

Include details and studies used in your business plan; for example:

- Brochures and advertising materials
- Practice area studies
- Blueprints and plans
- Maps and photos of location
- Magazine or other articles
- Detailed lists of equipment owned or to be purchased
- Copies of leases and contracts
- Letters of support from future clients
- Any other materials needed to support the assumptions in this plan
- Market research studies
- List of assets available as collateral for a loan

XII. Refining the Plan

The business plan presented above should be modified to suit your specific type of firm and the audience for which the plan is written.

For Raising Capital

For Bankers

- Bankers want assurance of orderly repayment. If you intend using this plan to present to lenders, include:
    - Amount of loan
    - How the funds will be used
    - What this will accomplish—how will it make the firm stronger?
    - Requested repayment terms (number of years to repay). You will probably not have much negotiating room on interest rate but may be able to negotiate a longer repayment term, which will help cash flow.
    - Collateral offered, and a list of all existing liens against collateral

For Type of Firm

The Nature of the Law Firm

- A law firm is a service enterprise and such enterprises sell intangible products. They are usually more flexible than other types of businesses, but they also have higher labor costs and generally very little in fixed assets.
- What are the key competitive factors in this practice area?
- Your fees to consumers
- Methods used to set fees
- System of production management
- Quality control procedures. Standard or accepted industry quality standards.
- How will you measure labor productivity?
- Percent of work subcontracted to other firms. Will you make a profit on subcontracting?

- Credit, payment, and collections policies and procedures
- Strategy for keeping client base