Chapter 7:

Better business plans – a blueprint for strategy realization

By David Parnell, columnist and founder and principal of True North Partner Management

In 2017, my colleague Patrick McKenna and I surveyed 68 law firm leaders – mostly from AmLaw-ranked firms – about the planning, creation and subsequent execution of their firm-wide strategy. As we expected, most law firms had a strategy. In fact, only 2.9 percent of the responding firms "preferred to remain flexible and opportunistic", i.e., to have no formal plan. While the survey shed some light on several facets of the industry's position on strategy, most relevant to this chapter is the realization rate of the developed plans.

Importantly, when conducting our surveys, we are careful to avoid highly specific language, as doing so generally mitigates any potential anxiety or embarrassment that the answers in a multiple-choice format might cause. So, when we asked the respondents how much of their strategy was realized, the highest or best response was not identified as "ALL of the plan" but rather "ALMOST all of the plan." "Best", in our definition, is a *total* execution of the strategy. However, the language in the answers still allowed for some puffery: "almost" might represent 90 percent, 80 percent or even 60 percent of the plan, depending on how they perceived the question. Now, even when using the looser language, we found that only 3.2 percent of the firms executed at the highest response. In essence, the majority of firms are, as Patrick says, "seeing SPOTS", which is an acronym for "strategic plan on the shelf".

Taking a step back, one can speculate as to why these strategies go unexecuted; certainly, the reasons are myriad. That said, based on years of experience with lateral partners developing business plans and, throughout the process, seeing thresholds for acceptable business plans by the receiving firms, I am confident that firm-wide policies and processes that surround the creation of individual business plans are at least partly to blame.

Think about it: if your firm demands thorough, deep and up-to-date business plans and you decide to approach the lateral market, your business plan for a potential firm is – with a little bit of modification – already done upon market entry. This is rarely the case. Furthermore, if you are a law firm the demands thorough and deep business plans from your own partners, why would you accept anything less from a prospect? Again, based on my experience with the type and quantity of information that firms request from laterals, this often enough is not the case.

Strategies are highly important; especially when your firm does not have a +100-year-old, bullet-proof brand. However, that strategy is worthless if it's not put into action, which can only happen where the partnership has bought into it and each attorney has their own on-the-ground plan for attacking it.

An attorney's business plan is their map, their plan, their blueprint for the coming year. If it is done properly, it will fit inside the firm's strategy. It reacquaints the attorney with their current clients; it renews their interest in prospects; it forces a deeper familiarity with their markets; and it illustrates the web of resources and human capital that support and build their practice. With that in mind, let's look at some of the most important components of a thorough business plan, the benefits that each section can provide, and the many ways in which this process will better ensure that your firm does not see SPOTS.[1]

Firm-wide strategy

At the time of writing this chapter, I've interviewed 85 chairpersons/managing partners from major firms for my *Forbes* column – close to 100 if you include practice heads – and in most instances, we discuss the firm's strategy. In addition, during the course of my search and placement work, I've spoken to many other law firm leaders and practice heads about strategy. Interestingly, over the years I've found that the market's grasp of all things strategy – what it is, an effective development process, the ability to succinctly describe it, mobilizing troops to execute it, etc. – sits on a vast spectrum. This can represent a problem for the firm in and of itself, certainly – if leadership doesn't understand their firm's strategy, how is the rest of the partnership to understand it?

While having your attorneys describe the firm's strategy in their business plan may seem *very* basic and redundant, it can be an illuminating barometer for firm leadership: do they actually get it? For a partner to function effectively as a gear in the strategy machine, they need to know what portion of the machine they are driving. There is no better way to ensure that than by asking them.

So, an effective business plan requires that the attorney understand the firm strategy – ideally putting it into their own words, if at all possible – and how, specifically, their practice fits into that business plan. Depending on the size of the firm, this will usually come in the form of a description of duties or responsibilities within the attorney's practice area. Working out that description consists of answering questions like: "What is the firm's current strategy? How will executing the strategy benefit you and your practice? How does your practice fit into that strategy? What could potentially happen to the firm should your practice group fail in its responsibilities within the strategy?"

This section comes first because it is the gateway through which all components of the business plan must pass. Doing this exercise forces the attorney to truly understand your firm's strategy, to make it their own by distilling it and putting it into their own words, and – perhaps most importantly – to really work through how their practice fits into it. The outcome of this process is (i) an overarching framework from which to decide upon and measure goals and activity moving forward, and (ii) a sense of the attorney's placement within the group and the firm as a whole.

See the following example:

> Our overarching strategy is to expand from our current regional to a national footprint by establishing Midwest and ultimately West Coast offices. This year, we are looking to start that process by creating an office in Chicago through the acquisition of an IP boutique. This will leverage our Boston- and DC-based clients' expressed needs in Chicago. We will ultimately seek to use the Chicago office as a springboard toward more national exposure.
>
> Many of the larger firms are buying up boutiques in this tighter legal market, and if we are to compete for the attractive firms, we'll need to be viewed as solid, brand-worthy and to have momentum. I know that our IP portfolio and transactional work, in particular, need to continue on with their upward trajectory if we are to remain an attractive acquirer in this market. It is therefore imperative that our IP group put together a plan that will keep the momentum going.
>
> If we are able to succeed with this, we'll have more work, more momentum, a better brand and, ultimately, a bigger pie from which to compensate all of us. If we fail, not only will that pie shrink, it could cost us an opportunity to move Westward; or worse, it could potentially have us acquiring a less-than-ideal boutique that could cause real cultural and economic issues down the road.

Practice summary

Of course, you'll want them to provide a practice summary. At a minimum, this should be the attorney's website biography, which will ideally provide an explanation of their practice from a 10K ft. view: what they do, the types of clients and matters that they support/engage, the markets they serve, and the general makeup of their client demographic. Please see the following example:

> While my clients come from a wide variety of industries and backgrounds, much of my experience is with manufacturing and engineering firms which serve the robotics and industrial sectors. My ideal clients are those middle market entrepreneurial businesses that populate the geographies of Washington, DC and VA.
>
> Clients typically have sales between $25 to $100M and maintain national footprints – often with international sales. I have also worked extensively with aerospace and defense contractors on general business, tax and M&A transactions. For example, I have several good referral sources within the aerospace and defense industry that have resulted in transactions for aerospace gear manufacturers, parts manufacturers and engineering services. As a result, I have made a concerted effort to understand the industry's different manufacturing tolerance levels, contract bidding processes and its financial modeling. In addition, I have also helped a number of clients in the professional practices, including several accounting firm acquisitions for a national accounting firm, mergers of several insurance brokerage firms, and the sale of several financial advisory firms.
>
> My geographic territory has around 350,000 privately owned businesses, many of which are in the lower half of the middle-market; the owners are generally 65+, many of which wanted to sell between 2008 and 2012 when values were depressed and sales dropped precipitously. Today, values are high and businesses now have experienced multiple years of increasing sales and healthy EBITDA margins. Private equity firms have been raising funds and their activity is increasing in pace. Their need to invest has caused many to move money at higher multiples and into smaller sized transactions. For example, I worked on three deals with out-of-state private equity buyers, all under $10M transaction value in the last couple of years. My expectation is the next 5 – 10 years will see significant turnover of the ownership of these companies and is an area that I believe will fit into our firm strategy.