

Quantifying your following and writing an effective law firm business plan

By [Scott Gibson](#)

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Appendix 1 – [Sample business plan \(equity partnership\)](#)

1. Introduction

I suspect that by this stage in your career it has dawned on you that, in the business of practising law, technical excellence, a brilliant legal mind, and a good reputation are not as fungible a commodity as cold hard client contacts.

Whilst the above are rarely mutually exclusive, for most partners your market value and ongoing job security is primarily derived from your book of business. Even for those rare firms and practice areas which purport not to require a following, there is a very strong correlation between “potential contacts/ track record” and partner compensation - in my experience this correlation is so strong as to constitute a direct link.

2. Defining a following

As you will doubtless know, determining a client following is often a highly subjective exercise based on a series of assumptions about: your personal relationships, your clients’ perceptions of the reputation of your proposed new firm, the ease at which ongoing matters can be transferred, charge out rates, profit margins, potential for client conflicts, activity and stability of the client, the practice

area itself, and the wider economy as a whole. As a working definition, your following is a per annum estimation of the work for which you are instructed by clients at a given charge out rate in a new firm in the short-term.

3. What to include in your following

Your following is not just the work which you or the other solicitors in your department do in your name; it includes work that can be introduced to other departments by you. It can include work which you are currently outsourcing to other firms. It even includes work which, although in a different practice area to yours, could potentially have been yours, had you been at a firm with the capability or reputation to undertake such. That being said, firms are generally more comfortable with the bulk of your following being in your own practice area. (Although in part this is because your hiring sponsor is often the departmental head and, however obliquely, will tend to need the results from your hire to show up on their bottom line.)

4. What constitutes a sufficient following – The "three to one" rule

A simplistic rule of thumb traditionally used to calculate the economics behind hiring you is that your portable following should be at least three times your proposed level of compensation.

The rule still very broadly works for most types of transactional law but can become distorted in your favour by a host of factors including: strategic need, synergy and potential with existing or target firm clients, ability to enhance or protect existing panel appointments, how soon your clients will generate cashflow, your own industry ranking, and whether or not you have any trophy clients.

Your practice area can also work in your favour significantly reducing, or even eliminating, your need for a following. In the UK, traditional corporate support practice areas such as non-contentious financial services, pensions, and corporate tax rarely require ratios of 3:1. Moreover, the level of certainty required in some practice areas, such as commercial litigation, tends to be far less than that of mainstream corporate thanks to the non-repeat nature of this work. As many a bemused London-based US hiring partner is aware, this latter example is in stark contrast to the United States where commercial litigation clients are as portable as those in mainstream corporate.

Against this your following can be discounted in the following circumstances: where it is overly reliant on one or two relationships, requires significant personnel support, introduces potential conflicts, or your clients are viewed as brand contaminants (for example by requiring discounted rates or providing commoditised, albeit profitable, work).

4.1 The effect of charge out and recovery rates on your following

The effect of a target firm's required charge out and recovery rates is rather similar to the variables of pressure and temperature in physics; just as a given element's state is determined as being a liquid, solid, or gas at room temperature and at one atmosphere of pressure, so too your following is instinctively calibrated by you in reference to the existing charge out and recovery rates of your current firm. In physics if you adjust either temperature or pressure the element's state will change, so too your following. Suppose your current charge out rate is £700 per hour with a recovery rate of 90% and you consider your following to be in the region of £2,000,000. Subsequently if you were to attempt to move this to a firm which requires you to bill clients at £850 per hour, with recovery rates at 95%, the strong likelihood is that a significant proportion of your clients will no longer instruct you.

Whilst this potential drop off in work can often be more than compensated by your being able to gain other matters higher up the food chain (sometimes even from the same client), it is an important variable which you should not underestimate, particularly as the issue applies equally to work undertaken by your assistants. Nevertheless, if the fit is right, most firms will allow for mutually agreeable transitional arrangements.

Obviously where you are moving to a firm with lower charge out rates (for example from a City firm to one based outside London) the rate differential tends to work in your favour by solidifying your following.

4.2 Age discrimination

Another factor which seems to work either way is age profile: whilst I'm sure it is counter to the Equality Act, in my experience all law firms tend to accept much lower followings from younger partners who they believe will have time to develop their practices to greater potential over a number of years. It is this principle which forms the basis upon which most jilted senior associates are offered partnership at other firms.

Nevertheless, whilst the "three to one rule" makes assumptions based on profit margin, parity of charge out and recovery rates, and has nearly as many exceptions as applications, it is still a very useful start point for you to calibrate your financial expectations.

5. The need to demonstrate: longevity, depth and potential of your client relationships

The variable you are most likely to have complete control of is your personal client relationships. In these law firms are looking for: longevity, depth, and potential.

It is all very well having a FTSE 100 client, but if your relationship rests with one individual and that individual gets run over by a bus, you, and your potential firm, run the obvious risk of losing all the work from their institution. As much as possible, try to assuage this concern in your business plan or you run the risk of your following being unduly discounted. List all relevant contacts at a given institution, both legal and business. You should specify their title, position, the length of time you have worked with them and any other factors which demonstrate client loyalty (such as if they instructed you in their previous place of work or recommended you to other lawyers).

Overall the more "hooks" you can show into a given institution the more confident a third party will be with the client relationship and the more potential a law firm will find for synergies with their own business.

In most instances potential law firms will want to have evidence of a track record with a given institution and will ask for your client billings over a three year period together with a forecast for the following year. Although not essential, it will help if you can demonstrate potential with an upwards trajectory in billings.

6. Writing a business plan

Nearly as important as your potential following is how you present this. Almost without exception you will need to prepare a business plan. Remember, most firms' partnerships, particularly full equity,

require that you are voted in by a cross section of the equity partners at the firm. It therefore helps when you are writing your business plan that you consider your audience, many of whom may not be familiar with your practice area at all.

Unless you are interviewing for a core area in the firm you are intending to join, in most instances it will help if you provide some background and economic context to the developments in your field and where you think the market is going. These may seem obvious to you, but I can promise that in many instances their importance will not always be grasped. Some partners are remarkably blinkered about developments outside their field but can quickly become interested in candidates whom they feel will in some way enhance their own practice, even if only peripherally. So, for example, in addition to the real estate team, a potential planning partner should be mindful of winning sponsors in construction, corporate, and (with restrictions on mobile phone masts and other such equipment) TMT teams.

Obviously, you should detail how your practice and expertise will enhance the firm's own practice area and, if you are intending to approach a number of firms, you will have to make your pitch bespoke for each. Most business plans will have a "core", leaving the rest to be amended to take account of individual client opportunities and relationships at a given firm. Generally the business plan is not presented until after you have interviewed at least once and had a chance to become properly informed of potential client synergies.

Although I would suggest you prepare a core business plan before you approach a given firm, for tactical and professional reasons, you may not wish to "reveal all" in your initial submission. This is generally perfectly acceptable because your main sponsor (usually the Head of Department or practice area) will, more often than not, be required to submit supporting documentation, and will often wish to co-author a joint plan or possibly require you to amend the document into the firm's own *pro forma* ahead of the partnership vote.

7. Presenting numbers

A business plan should be a compelling sales document but without numbers that add up it will generally look fanciful. In relation to followings you should present these in tabular form breaking down each client by historic billings and potential future billing ([click here to see a sample business plan](#)).

In relation to your historic billings, you should include details of your time worked over a three-year period including billable and non-billable hours giving explanations for any major anomalies. Charge out and recovery rates will also be required for you and your team, and again, ideally these should show a track record over a three-year period.

In relation to estimating following there are two main variables to consider. The first is the percentage chance of a given client being willing to instruct at the new firm, and the second is the potential level of work you will likely receive from that client in the first year (it is all very well being guaranteed by a client that they will instruct you, but if the client is inactive you won't be able to bill them). You can present this using the calculation above or by simply stating a range of potential billings against the client together with a "reasonable expectation" level.

If you do this for each client, remembering to include all matters which would follow even if they are outside your department, you should be able to build up a fairly accurate range for your following so that you can provide overall reasonable estimations based on: "poor", "projected" and "good" outcomes.

8. Glass half full and glass half empty assessments

The two most difficult types of partners to assist are those who are overly optimistic and those who are unduly pessimistic. The former, like an addicted gambler convinced of a big win, give forecasts based on positive outcomes for each and every assumption they make and provide implausible reasons for why their projections are so out of kilter with their historic client billings; the latter, anxious above all to maintain their integrity, will either state that their following is “impossible to determine” or will tend to take the downside of every scenario, multiplying further discounts into each additional variable.

In an ebullient market there are plenty of law firms who will accept the spurious arguments proffered by the optimist, but it is rare in most mainstream transactional practices for firms to hire the overly cautious candidate on terms that will put much of a spring in their step. To some extent this makes perfect business sense; if you think of law firms as sellers of legal services, and you accept that in the sales process there is nearly always an element of hyperbole, then a partner who cannot convey this may not be the best front end representative for the firm anyway.

9. A “health check” from a recruiter

At some point after you have completed your own initial assessment of your book of business, it is likely you will benefit from the input of a recruiter. Although it is fair to say very few legal recruiters have the experience or temerity to provide any meaningful feedback to senior equity partners, there are a handful of veteran partner level recruiters who will add significant, and sometimes critical, input both in terms of calibrating your following and checking your business plan.

An experienced recruiter will be able to give your overall proposition a health check; they are likely to challenge some of your assumptions enabling you to change tack or to more finely hone your sales pitch. In addition, they may know something about the clientele of your target firm, or its ability to undertake work outside of your core expertise, which enables you to legitimately increase your estimation of your following. They will intelligently proof read (and occasionally co-author) your business plan, checking that all the inter-related numbers add up and that your business plan is consistent with itself. If you are struggling with what to put down as a “reasonable” projection of work from a given client, then, properly briefed, they will assist you in determining this.

As stated, if you are interviewing for an equity partner position it is likely that your business plan will have to go through at least one revision ahead of a partnership vote. Because these amendments are often last minute, you may find a recruiter’s confidential on-hand assistance particularly valuable in these circumstances.

10. Conclusion

The trick with assessing your book of business is to make a reasonable judgment based on all the information you have to hand. All serious businesses are required to make quarterly forecasts and partners at law firms are no exception. If you compartmentalise the process in the way described above you should at least have a quasi-mathematical basis for making a reasonable estimation of your client following. Once you have completed your calculations and are comfortable with them, I strongly

suggest that you resist the urge to further discount your following as most firms will do this automatically anyway.

In all instances I would suggest that, even if you do not wish to present the document to any parties, you write a generic core business plan ahead of any meetings or interviews. The document will help concentrate your mind like nothing else: it will alert you to the strengths and weaknesses of your proposition and it will enable you to practise your sales pitch ahead of any meetings where, in a long process, you may be partially judged on the consistency of your answers. At the risk of adding a thinly veiled sales pitch, an experienced partner level recruiter is likely to be of considerable assistance to you in both calibrating your following and health checking your business plan(s).

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