



IS IT TIME FOR A BRANCH OFFICE?

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Deciding whether to open a branch office can be tricky. There are lots of factors to take into consideration. Branch offices opened for the “right” reasons can add to the bottom line of the firm. Branch offices opened for the “wrong” reasons can drain energy and profits, and become a source of contention and dissatisfaction for some partners. Let’s explore these issues further.

There is no doubt that branch offices create an additional administrative burden on a firm. Ask any managing partner or director of administration, and they will tell you that the time spent to manage a branch office and all the related issues are often disproportionately higher than the overall contribution the office makes. That is not to say that your firm should not have a branch office. Rather, your firm should be prepared and realize that the additional complexity will cause a great deal more work for your administrative team, and some additional expense as well.

Budgeting and accounting will become more complex as you develop, track and report on revenues and expenses by office. Billing will similarly add a level of complexity, as you seek to track statistics not only by attorney, but also by office, as well as to determine what work, if any, is crossing boundaries—a strong indicator that cross-marketing and integration between offices is taking place.

Many billing systems must be modified in order to provide branch office accounting capabilities. Multi-jurisdictional reporting for wage and income tax purposes requires stronger accounting and timekeeping recording and reporting procedures. The bottom line here is that the additional needs for information and service create more work for your administrative staff than you think they will, and often involve additional out-of-pocket expenses as well. As an example, even something as simple as sharing client files between offices creates a need for extra trips by the firm’s runner, or additional shipping costs, as well as improved record-keeping to track the location of the files.

In addition to the administrative overhead which a branch office creates, there can be numerous additional issues to contend with regularly if the location of the branch office dictates different rates, billing practices, compensation packages and so forth. And that is often the case. My experience is that these small differences can become major hurdles to the psychic well-being of partners. I frequently hear members of a firm’s management committee complain that those in the branch office don’t work as hard; don’t contribute as much; want “special” treatment on compensation or billing practices, and so forth. I have

even heard complaints about how attorneys in branch offices want to have the best of furniture and fixtures, without regard to the facilities at the main office. At the same time, the partners in branch offices frequently complain that they are the “step-children” of the firm; that the main office does not understand or care about their special needs or different marketplace environment; that their contributions are not recognized accurately; that they are “hamstrung” when they try to do something as simple as hire professional talent, buy equipment, or develop differentiated marketing strategies.

With all these issues to contend with, why would any firm want to open a branch office? First, Altman Weil’s *Survey of Law Firm Economics* reveals that while the average overhead per lawyer is higher for firms with branch offices, the average revenue per lawyer is also higher. The good news is that the difference in revenues per lawyer remains approximately twice as high as the difference in overhead. That means that on average, firms with branch offices have more profit per lawyer than those that don’t have branch offices. That’s the result of the “synergy” consultants talk about when they guide firms to establish successful branch offices.

The accounting realities of branch office contributions can sometimes be missed. Firms that do only profit-centered accounting on each individual branch office may fail to recognize the overall contribution made by the office. To prevent that, the firm should benchmark its overhead per lawyer and revenue per lawyer *prior* to creation of a branch office, and review those numbers each year thereafter. That is a good way to ensure that the firm recognizes the value good synergy can produce.

The “right” reasons to open a branch office vary from firm to firm, depending on its strategic plan. One of the stronger reasons is to gain access to a different geographic market, where physical presence is necessary to do so. The firm must determine whether to start an office from scratch, or merge with or acquire an existing office. Typically, those firms which attempt to establish a branch office from scratch face more difficult issues, from trying to get sufficient talent to move to the new location, to development of business in a brand new area. Potential clients and peers often turn a cold shoulder to outsiders who try to muscle into their market. Competition is often stiffer than anticipated, and there is frequently far fewer new client opportunities than anticipated. Therefore, firms which attempt to start a branch office from scratch must be adequately capitalized in order to “carry” the office for a considerable length of time while it becomes established.

Another good reason to open a branch office is to meet client needs. However, the firm should make sure that the client really wants the additional service, and not make any assumptions. Too often, attorneys think they know what the client wants without actually asking. They are often surprised when they do ask—usually only *after* the office is opened—to find their assumptions are incorrect. In addition, the economics of a branch office created at a client’s request must make sense to the firm. Other strategic opportunities it might create should be analyzed. That means looking at possible referral sources in the area, number and strength of competitors, potential clients, and so forth. There is never a substitute for looking at solid data before making business decisions of this magnitude.



There are also many “wrong” reasons why branch offices are sometimes opened. Offices established for the convenience of partners—rather than clients— who want a shorter commute or the ability to “rule the roost” as a solo while retaining the advantages of a larger firm are not likely to create the synergy sought.

Offices established in order to create a national or regional image for the firm, on the assumption it will make them more attractive to a class of potential clients, often prove to be based on false assumptions, and fail to produce the desired results.

There are times when using the services of an outside consultant can be a smart strategic move. I wish more firms called me *before* they opened a branch office, rather than afterwards, when major issues, such as partner dissatisfaction or poor financial performance, have already developed. Many issues can be prevented altogether with proper forethought and a good plan.

Establishment of a branch office, like anything else in a law firm’s life, can be a positive or negative experience. In order to make it a positive one, the firm must make sure that the establishment of the office fits their strategic plan, that they have carefully analyzed the data, have adequate capital, and are prepared for the many issues which will come into play.

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