



DEVELOPING A BUSINESS PLAN: FIRST STEP FOR FIRMS IN NEED OF CAPITAL

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I was recently contacted by two young attorneys on the same day. Both were starting out on their own and needed my assistance. The first wanted information on IOLTA accounts and trust account rules, malpractice insurance and such, to be sure he had not missed considering anything.

When I reviewed my checklist with him to make sure he had thought through and anticipated the various issues and problems, one of my first points was to ask if he was adequately capitalized. He responded affirmatively, stating that the bank gave him the funding he requested immediately, and therefore he was in good shape financially. I inquired as to whether he had a business plan, and he responded that it was the first thing he did.

The second caller was not so lucky. He was anxious over his financial situation, and not really able to focus on other concerns. He had been turned down for a loan at each of the financial institutions at which he applied. Did he have a financial plan? “No”, he replied, “how do I go about making one? And do I really need it? I’m just a solo.”

The second caller failed to realize, unlike the first, that banks no longer hand out money to lawyers based solely on a perception that the loan is “good as gold”. Law firms have failed. In fact, there have been some spectacular failures which have left banks holding the bag for millions of dollars in debt. There have even been resulting law suits. Add to that the defections, mergers, acquisitions, and highly increased borrowings, and the result has been that more and more bankers are looking at law firms like any other business when it comes to lending money. So unless you have an area of practice which provides you with a million dollars of escrow money sitting around to give you extra clout at the bank, you’d better be prepared to rely on a solid business plan instead.

What goes into a business plan? This article will hit on the main points. Hopefully, this will be enough to get you started in the right direction. Note that the Small Business Administration has a sample business plan you can order, or get from their web site.

Your business plan should start with a *Cover Sheet* showing the name(s) of the principal(s), address and phone number of the business. Immediately thereafter a *Statement of Purpose* should set forth in general terms why you are approaching the financial institution, and what you'd like to accomplish with the money you seek.

In the first section, provide full detail regarding *Your Business*. Include such information as your firm's practice areas and clientele, your competition, your market position at each of your locations, your management structure, and your current personnel. It is important to show that you understand your marketplace and your position in it, particularly in relation to your competition.

Next, present your *Financial Data*. Provide details about your assets, including furniture, equipment, unbilled time and receivables. Provide your Balance Sheet, Income Statements for up to several years, projected Income Statement, and a schedule which shows your "bottom line break even" overhead point. You'd be surprised how many people do not know what the bare minimum income must be to break even. The bank wants to know you are aware of this figure. If you are just getting started, a start-up budget should be presented. Additional financial data should include a projected Income Statement, Cash Flow Projections, and any supporting documents like tax returns, personal financial statements, leases and such.

Once you've set forth the necessary description of the business and the financial information, it's time to move to your *Marketing Information*. Because marketing is essential to the success of any law firm, you need to demonstrate that you have clearly defined your target market(s), know whether they are growing or declining, know how much competition you face, know their likes, needs and so forth. You need to show you have developed a multi-level strategy to gain and increase market share in your target market(s), and that you have somehow managed to differentiate yourself from your competitors.

Finally, set forth your *Business Management Summary*. This is the section which asks for the funding, and sets forth your expectations for how much money you want, what it will be needed and used for, how the funding will benefit your firm, and how you anticipate the funds will be repaid. Most importantly, you should indicate clearly why making the loan to your firm makes sense for the bank. This is not a place for modesty. Set forth your capabilities both as a lawyer and potential rainmaker, and as a successful business manager. If you have or plan on having employees, be sure to show that you are capable of nurturing this most valuable asset.



With some time, thought and effort, you can develop a business plan which should fairly ensure that financial institutions will respond favorably when you come calling for capital. In addition, the work which goes into creating the plan will actually benefit your firm in terms of generating awareness of your marketplace, your finances, and in mapping out a marketing plan. All of which will contribute strongly to your future success.

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