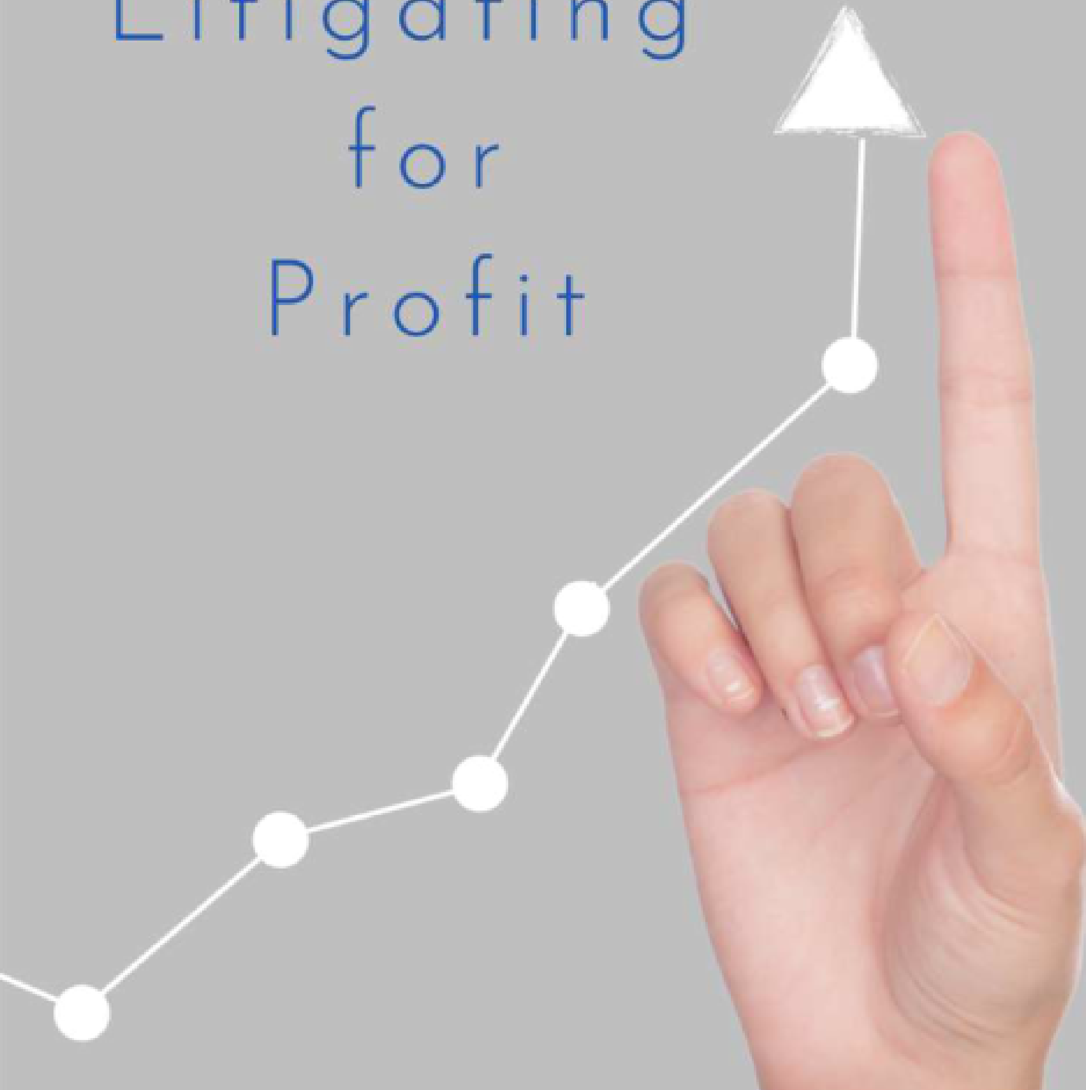

Litigating for Profit

Utilizing Accounting and Finance to Run a Successful Law Firm

by Paula Field

CPA, CFE

Litigating for Profit - Utilizing Accounting and Finance to Run a Successful Law Firm

ISBN: 978-0-578-90254-8

Litigating for Profit

Utilizing Accounting and Finance to Run a Successful Law Firm

Paula Field

Table of Contents

Introduction

My son Reece was about to go to Texas Tech for a football tryout, and my husband and I were excited to get him there.

But, as we were about to set off, my mom called and said:

"Dad's been in an accident."

Unfortunately, my distraught mom couldn't give us any more information. The hospital refused to tell her how dad was until she got there.

After a series of frantic phone calls, my brothers and I rushed to the hospital.

The Hard Truths at the ER

Getting into the ER isn't a pleasant experience, especially when a loved one has been in an accident and you don't know how serious it is.

We went in; I can still remember the whooshing sound of the electric doors, those white hospital lights, and the waiting room. Then, the doctor came with the news…

"I'm sorry, your father passed away; we did all we could."

The words reverberated in my head, and I just couldn't believe what he was saying. I looked at the rest of my family and, for a second, their faces were expressionless, full of disbelief.

Then, it registered with us all; I think my mom was the first to burst into tears. But now, that doesn't really matter.

My family felt as if a giant chasm opened right in the middle of the ER and all of us fell into it.

The sorrow, disbelief, and even anger stayed with all of us for quite some time. I struggled to sleep and just wouldn't accept the fact that dad was gone.

But unfortunately, I had a more pressing issue to resolve.

Death and Its Legal Implications

Why Attorneys?

The legal conundrum following my father's death helped me understand that I want to work exclusively with attorneys. I got to admire certain key traits most great attorneys share. These traits made me firm in my decision to work with lawyers, so I'd like to share them with you.

#1 - Compassion

It's easy to assume that someone is compassionate, but what does it really mean?

Compassion relates to another person's emotional response to your problem. But the key is in their genuine desire to help you get to the bottom of that problem. And in my experience, lawyers are great at that.

Maybe it's because compassion is part of their job. I mean, people come to attorneys to solve their current problems or avoid future issues. But there's a more important message I'm trying to relay here.

Some might believe that attorneys practicing tax and business law aren't compassionate because of their niche. However, that couldn't be further from the truth.

Regardless of their specialization, a great attorney always accepts the client's perspective and focuses on their feelings. And it doesn't matter if the attorney agrees with their views; compassion should be an integral part of their job.

#2 - Ability to Listen

Without these exceptional listening skills, the communication between an attorney and the clients would suffer. But an attorney also needs to pay close attention to what the adversaries and judges are saying.

By listening attentively, an attorney knows what, when, and how to say something. To stress, finding the right words at the right time is next to impossible without listening.

But there's another thing I'd like to point out.

Being great at listening isn't about just hearing what others have to say. Attorneys need to receive a lot of information, then analyze and process it in order to give their clients valuable advice.

#3 - Assertiveness

There are people who confuse assertiveness with aggressiveness. Being assertive means that you're able to voice your opinion while respecting what others have to say.

On the other hand, aggressiveness is an attack where you disregard different opinions, favoring your own. Despite what some believe, attorneys don't need to be aggressive but assertive. Also, working with an aggressive attorney might not lead to the outcomes you desire.

As indicated, aggressive attorneys may fail to understand the position of the opposing party. Therefore, they may fail to get to the bottom of the problem effectively, thus missing the chance to come up with a solution.

In business and private settings, that kind of behavior may lead to interpersonal tensions. And when that happens, it is tough to come to an agreement.

#4 - Creative

The ability to find a creative solution to the client's problem is one of the critical traits of a great attorney. But how do attorneys practice creativity?

An attorney needs to understand that each problem is unique. They have to handle each client with special care and craft a solution that's specific to a client's situation.

Also, I came to the realization that most attorneys do their best to mitigate risk. This means they need to think outside the box to create the most optimal solution for a client.

But being creative also ties with compassion and assertiveness. A compassionate attorney has a much better understanding of the whole situation, both from the adversary's and the client's perspective. Only then can the attorney use assertiveness to present the creative solution while still being respectful to everybody.

#5 - Perseverance

To achieve success, great attorneys keep going until they find the right solution. But this isn't just a relentless push to try to reach an agreement no matter what.

Sometimes attorneys could hit a wall, and at that point, it's perfectly fine to take a break and walk away from the case. But this is only an intermission before an attorney gets ready for another round of negotiations.

Knowing all that, I decided to help every attorney develop the profitable firm that they deserve. As a CPA, I can do precisely that. In this book, I'll cover some of the key financial aspects of running a law firm or any kind of business profitably.

CHAPTER 1

There's a Difference Between Profit and Cash Flow

One of the most common problems after a CPA has worked through your accounts is – where did all the money go?

But let me use a client's example to show you exactly what might happen.

The Profit and Loss Report of one of my clients stated that he made $500,000. But that money wasn't on his account. Now, this is a super-smart professional who makes more than $3 million a year, and the only question he asked before hiring my firm was:

"If I ask you questions about my financial statements, can you answer them?"

"Yes, you can count on it!" I responded with the utmost confidence.

But let's consider the $500,000 again. Why did the bank statement show the number but financial statements painted a completely different picture?

The first thing I want you to understand is that profit and cash flow aren't the same. The client's bank account was actually showing the cash flow, not the profit.

I understand that most professionals would expect the profit to appear in their bank account. This should be the money that's left after covering all the expenses and operational fees. However, the reality is usually much different.

As said, your bank account shows the cash flow for a certain period, a month or three months, for example. This is all the money coming in and going out of the account. But profit isn't like that.

The profit actually represents your income, minus the expenses that are tied to the income. And you should know that the given expenses may not line up with the time of their payment.

Now, all this may sound a bit confusing, and that's perfectly fine. The following sections explore the differences between profit and cash flow in detail so you can understand what I'm getting at.

What Is Profit?

Profit is your net income. This is the money that's left after selling your services and covering all the related expenses.

Being profitable means your firm is making more money than it is spending. Any other way and it would be tricky to stay in business. But there are specific challenges that could affect your profit.

A successful service or product could become more expensive to maintain and sell. Consequently, the rise in expenses will affect the profit, so what should you do?

A strategy to offset the increase is to try to cut the costs to keep optimal profit margins. However, it's vital to be careful not to make any cuts that would hurt the sales of that service or your business as a whole.

Also, you need to know the difference between the net and gross profit. The latter represents the difference between the total cost of the services or products you sold and your income. To bring the idea closer to you, I'll use a straightforward example.

Say you run a grocery store and your revenue for May is $30,000. But the cost for wholesale groceries you pay is $20,000, so the gross profit you're left with is $10,000. And if you want to calculate the net profit, you need to subtract other related expenses from the number above.

For instance, your overhead and operational expenses for May could amount to $3,000. Therefore, you're left with $7,000 in net profit.

To stress, the above is just a very simple example to help you understand the mechanisms and basic terms. In the real world, calculating net and gross profit is much more nuanced, and there are various factors to account for.

Still, it's necessary to understand your profit because it gives you a clear overview of where your business is at any given point in time. What's more, a lack of sufficient profit may dictate changes within your business.

What Is Cash Flow?

As said, cash flow represents the money that's coming in and out of your firm. These are the funds you use to run operations, make investments, and finance the workflow. Additionally, you'll use cash flow to cover your short and near-term expenses.

In a nutshell, cash flow is the money that allows you to run your firm.

If the cash flow is insufficient, that means you won't be able to meet your financial obligations. And it could cause your firm to grind to a halt or start losing money.

As mentioned, it's possible to face a cash flow crisis even when your services are profitable. This isn't uncommon with growing firms and businesses, but established businesses can also face the same crisis.

As there's more demand for that particular service, your expenses go up. Catering to the service may also require more manpower and additional resources. All that requires greater cash flow if you are to cover all the extra overheads and stay in profit.

To that end, there are two types of cash flow – positive and negative. With positive, more money is coming into your firm than going out. In contrast, negative cash flow shows that you're spending more money than your firm brings in.

Now, the money that comes in is called the inflow, and the money going out is the outflow. Generally, there are several ways to feed the inflow and there are different types of outflow.

For example, your receivables, sales, and borrowed funds are inflow. And everything you pay to cover taxes, rent, loans, inventory, and payables is the outflow. Sure, there could also be more specific expenses based on your company's operational needs.

At best, you should be able to have a clear insight into inflow and outflow. That will help you keep an optimal balance between the two.

So… What's the Difference Between Profit and Cash Flow?

It's easy to assume that being profitable and having a positive cash flow are the same things. And they may appear the same unless you take the time to understand their differences.

To remind you, you need operational cash flow to keep your firm running. And profit is what you earn after all the expenses.

Now, we get to accrual accounting, which could be one of the main reasons many business owners struggle to figure out the difference between the two.

This accounting method logs your expenses and income the moment they happen. This goes even if no money exchanged hands. So, an expense or earning shows up in the statements even if the money still hasn't left or gone into your account.

But what's the context here?

Let's assume that you're invoicing your clients and the invoices are payable by Net30, Net60, or Net90. In other words, it could be up to 90 days before the money reaches your account.

With accrual accounting, the statement shows that you've sent out the invoice, and it logs the invoice amount. Therefore, it may appear that you're profitable even though the money hasn't been paid yet.

If you don’t pay close attention to your receivables, you could end up with insufficient liquidity to keep the ball rolling. Again, we’ll assume you run a grocery store to help you understand better.

Imagine you land a huge deal to supply groceries to a hotel chain. The deal is worth $100,000 and you agree on Net60 payments. So, you’d need to wait for 60 days before the money is paid into your account.

In the meantime, you’d need to pay your vendors by Net30, which would give you a false idea of profit for one month. Of course, this is only if you don’t factor in the expenses associated with this transaction.

Where Did the Profit Go?

At this point, you should have a much better understanding of how your profit and cash flow work. My goal is to help you make sure the profit stays the same or grows. Therefore, it’s critical to explore some of the common mistakes that could cause the profit to dwindle.

Mistake #1 - You’re Not Getting Help in the Areas of Business Where You Need It

As a business owner or an attorney behind a firm, your strengths and expertise lie in a particular area. If you don’t understand what your weaknesses are, you may fail to seek professional help to make sense of business aspects that aren’t your specialty.

Naturally, accounting is commonly the aspect with which business owners struggle.

My point is – if the numbers don’t seem to add up, or you’re at a loss about your cash flow or profit, you shouldn’t hesitate to seek help. Any delay may negatively affect both the cash flow and profit.

The idea is to keep your business running at maximum efficiency, financially speaking. Otherwise, dollars will be flying out of your pocket each day.

Mistake #2 - You're Using the Wrong Pricing Model

When setting your prices, there's no room for guessing.

But figuring out a suitable pricing model within service industries can be tricky because it's not uncommon for your ego to dictate the numbers. You need to silence the ego and stop thinking in terms of *your* services.

After all, they aren't *your* services but the services your firm provides to the clients. And when you start looking at the prices from an unbiased perspective, it should be much easier to come up with optimal prices.

The goal is to set and use a strategic pricing model. This usually means you should start with a projected gross revenue per year. Then, you assess your capacity to attract and cater to the clients to hit that gross revenue.

For example, you want to get $1 million per year and have the bandwidth to work with 500 clients. Divide the two numbers, and you'll know that each client's fee should be $2,000.

Knowing that number, you'll be able to calculate the best hourly rates and the number of hours you should spend with each client.

Unfortunately, the math isn't this clear-cut in practice. But it gives you an idea of how to find a suitable pricing model.

Mistake #3 - Your Marketing Strategy Isn't as Good as It Needs to Be

Yes, you're an attorney, but you're also a business owner who's accountable for the prosperity of the firm. As such, you need to commit to a strategy that's going to sell your service to the world.

Without a clear marketing plan, it would be pretty hard to grow your firm. But be careful. Fancy marketing materials could be a money pit that brings poor results.

Being an attorney, your communication skills are one of your most substantial assets. Make sure to use them when relaying your marketing messaging.

No matter how fancy, glossy, and attractive your business cards or brochures may be, they can’t replace what you communicate directly.

Mistake #4 - You Don’t Have a Defined Business Plan

Think of it like this – a client comes to you for advice on whether to invest in a business or not. You conduct quick due diligence only to realize that the company is running without a business plan. What would you advise the client?

I guess you’d ask them to look for a different investment opportunity. But why would you run your firm without a business plan?

There’s no reason, and the lack of a business plan could be detrimental to your long-term success. To explain, it could make your firm vulnerable to sudden unexpected changes in the market.

But what are the vital aspects of a well-defined business plan?

First of all, you need to be crystal clear with your offer and specializations. The plan needs to state how you’ll approach, convert, and nurture your ideal customers. Also, it should express different ways to manage profit.

Lastly, the points above are just a few of the vital aspects, and you could add more. But this doesn’t mean your business plan should be overly complicated to work.

Mistake #5 - You’re Not Tracking Your Expenses Properly

As a business owner, you need to keep tabs on all your expenses. That gives you the upper hand to cut costs and make savings without jeopardizing the quality of your service.

In this day and age, tracking your expenses properly isn't as hard as you might think. There are plenty of software solutions that allow you to look into the numbers to get a clear picture of what's happening.

Regardless of how you track the outflow, the critical thing is to do it in a timely manner. If you haven't checked the numbers for quite some time, chances are you're overpaying. Consequently, your profit won't be where you want it to be.

To counter potential profit loss, you should thoroughly assess all the expenses every quarter or sooner. That will show you where and how to make adjustments to maintain or boost your profit. Also, expenses assessment may indicate that you need to negotiate a better deal with some of your vendors or just cut the cost altogether.

Look for the Profit

To reiterate, cash flow is the money coming in and going out of your firm. And the profit is the money that's left after you cover all the expenses.

The trick is to understand the accounting side of things so you get a clear idea if you're in profit or losing money. And you already know that accrual accounting may lead you to believe that you're profitable while there are still outstanding receivables.

If you haven't dealt too much with the accounting side of your business, all the information may seem overwhelming. But take things one step at a time and don't make the common mistakes described in this chapter.

The most important things to remember are the business plan and monitoring your expenses. As for other aspects of cash flow management, I've dedicated the whole of the next chapter to them.

CHAPTER 2

Managing Your Cash Flow

Yes, there are different ways to manage cash flow, and people have different ideas of how to do it. But unfortunately, those ideas usually don't work.

It's possible to create a comprehensive excel spreadsheet, and I can tell you how to maintain it to keep tabs on the cash flow. But the reality is that you'll struggle to keep up with the spreadsheet.

Why?

You may land a vital case, get busy with it, and you'll start getting behind. Plus, you might not have the time to properly update the spreadsheet.

Okay, let's assume that you're a diligent attorney, and you pledge to revise all your spending and update the spreadsheet accordingly. But be honest with yourself and consider how long it would take to revert to old habits and stop adjusting the spreadsheet because you don't have time.

Now, don't take this the wrong way. I don't want you to feel bad because, from my perspective, over 12 months, you'll be able to streamline your cash flow and stop thinking about the spreadsheet entirely. So, how do you do it?

There are two elements to the puzzle:

1. Generate more revenue
2. Reduce your expenses

To explain, I want you to deep dive into your expenses and do your best to operate smartly. Assuming your business has grown a lot, it will be difficult to keep track of all the expenses.

This is all the more reason to operate smartly. You know, profit can be like grains of sand slipping through your fingers. That is – you don't want to let it go to waste, particularly with unnecessary expenses.

But let me use a client's example to paint you the picture.

Untangling the Cash Flow of Mr. Stuck

Sure, the client's name isn't Mr. Stuck, but to exemplify the point, let's call him that.

Anyway, he was running a successful practice, and his wife helped with the accounting. Unsurprisingly, Mr. Stuck didn't know if the firm was profitable. To add fuel to the fire, Mrs. Stuck kept trailing behind with the accounting paperwork, and the aftermath…

The couple never knew how much cash was available.

They were locked in a vicious cycle and had to wait ten months before their CPA filed the returns. To stress, this was before they knew how much there was in terms of their savings or current cash flow. And the worst-case scenario would be to go to the IRS on the extended deadline. That created friction between the spouses until I showed them the way out.

Mr. and Mrs. Stuck got into our SHOW ME THE PROFIT program and started with daily accounting. Mrs. Stuck was over the moon since she was finally in charge of tracking and paying all the bills. But our efforts to help didn't stop at that; we also did the following:

- Took over all other accounting aspects of their business
- Changed their daily perception of bank accounts
- Did a financial deep dive to assess the expenses
- Reorganized their bank accounts and financials and provided them with monthly reporting to track their progress

Lastly, I should stress that the firm's expenses were clean to begin with. Just 12 months into our program, they boosted the available cash by 84%. In fact, the couple now wants to invest the extra money into a rental property.

Also, their tax return was completed in February without any surprises. Plus, they keep getting reports every month to show them how the bank balance has been growing.

But before you learn to rein in your expenses, let's consider some challenges you might face.

The Four Cash Flow Challenges Your Firm Faces Today

Challenge #1 - Getting Capital

Resorting to different types of financial support when you struggle with liquidity is okay. Commercial loans and other types of financial aid can help you remain afloat. But getting that support isn't as straightforward as you might think.

In the US, for example, close to 40% of businesses don't even apply for financial help.

Why?

The reasons are different and somewhat arbitrary to tell you the truth. About a third of business owners believe that interest rates are through the roof. Then, there are those who think their application won't get approved. Finally, some business owners just don't want to make payments.

Whatever the case, getting a loan is an excellent way to boost your finances if you take it for the right reasons. But your cash flow needs to be stable to ensure you're eligible for a loan.

Challenge #2 - Managing Payments

Managing payments could prove more challenging than you expect. Some US studies reveal that more than 50% of small businesses, law firms included, bill their clients on a particular date. That's okay, as long as the clients pay on time.

But wouldn't it be great if you were in the other 50% of small businesses that charge in advance?

That strategy would allow you to get the money before you provide the service. To that end, there's an even more critical reason why advanced payments might be the best solution for you.

When you're a small business, processing payments takes much longer than you expect. To resort to stats again, 66% of small businesses in the US state that waiting seriously affects their cash flow. Also, almost a third of those businesses have to wait 30 days or more.

But managing payments is linked to collecting your receivables. So, it pays to consider that challenge to get a better understanding of how to fix the given issue.

Challenge #3 - Managing Receivables

Receivables represent the money someone owes to your firm. You've provided the services, but the client still hasn't completed the payment. Until you get the money, these receivables are outstanding receivables. That means you're waiting to get paid.

The situation could be familiar to you, and you may consider it a normal part of the job.

However, the more outstanding receivables there are, the harder it will be to get hold of your cash flow. And your law firm isn't an isolated example.

Take small businesses in the US, a third of them have $20,000 or more in outstanding receivables. Alarmingly, the average exceptional receivable amounts to $53,399.

To avoid accumulating these, you need to do everything in your power to push your clients to pay on time. For instance, setting automatic reminders can help. Or, in some cases, you may agree on advanced payments.

Either way, feel free to try different options to see which one works the best for your firm.

Challenge #4 - Managing Employees

If you fail to keep your receivables in check, you aren't the only one who's going to take a hit. Since you don't have sufficient funds, chances are you'll struggle to make payroll for your employees.

Again, US stats show that more than 40% of small businesses face that challenge. And the situation in Australia isn't much better. Down under, cash flow problems are one of the main reasons why employees don't get paid.

But don't get this wrong; it's not like small business owners don't pay at all. Instead, about a third are late with the payments, which could have dire consequences on the employees' lives.

Some of your employees could be living from one paycheck to another. And if they're left waiting for their salaries, they're likely to seek employment elsewhere. Given the specific nature of your niche, this isn't something you'd want.

Arguably, the best way to keep the cash flow stable and manage everything properly is to start cutting expenses. The following section lists all the right areas to begin making cuts immediately.

Deep Diving Into Your Expenses – The XXXX Unnecessary Expenses You Have Right Now

The problem is that some of the expenses listed below may incur without you knowing about them. But then, there are those that involve paying way too much for the things you don't need. When you first start out, the firm is lean, and you know there isn't enough money to spend fruitlessly. But, as income grows, your belt loosens and you get busier. Those two combinations can wreak havoc on your bank balance.

So, here are the expenses that need to be under your radar.

#1 - Paying Too Much on Your Lease

If you haven't reviewed lease invoices for a while, now is high time to do it. Don't hesitate to ask about any increases that don't make sense. There's a chance you're getting charged for things you don't need or don't want.

But even if the lease invoice appears okay, you should come up with a strategy to renegotiate for a lower rate. Ideally, you'll enter the negotiation just as your lease contract is about to expire. This could push the landlord to offer lower rates.

Now, renegotiating for lower rates isn't always possible. That said, your landlord may agree to allow you to sub-lease the space to offset some of the cost. But do you really need office space?

A lot of solo attorneys work from home in a virtual office. Better yet, this cost-cutting strategy works for larger firms as well. They make significant savings by downsizing downtown offices and allowing some of the attorneys to work from home or other less expensive locations.

And after Covid-19, it has become more acceptable. Since the pandemic happened and people began working from home, many businesses allowed their employees to continue working from home. In turn, these businesses may ultimately cut office rent expenses completely.

Therefore, weigh your options and calculate how much you could save by downsizing the office or renegotiating your lease. I'm sure you'll be surprised by the number you get.

#2 - Your Telephone and Internet Rates

Telephone services and rates are notoriously hard to negotiate, at least until your contract comes to an end. Still, you should regularly scrutinize the bills and check if the charged tariffs are in line with your agreement.

Also, keep an eye on charges linked to your bill by a third party. If you find abuse or significant discrepancies, get in touch with the service provider and ask for a refund. This applies to small and large law firms where it could be particularly tricky to track the expenses.

Regardless of the challenges, some law firms managed to get huge refunds from telecommunication companies.

Whatever you do, you and your employees should get access to the firm's telephone and use it only for business purposes. Sure, as your firm grows, so will the telephone expenses. But then you have the upper hand to negotiate a better rate as a bigger user.

Finally, I want to stress that the phone bill is indeed one of those expenses that's easy to disregard. But you now know better than that.

#3 - Overcompensating Your People

The quick way to make savings is to cut everybody's salaries. But you should use this only as a last resort.

A better way is to cut the fixed portion of the salary, which is the money you pay to people just because they show up. Then, consider an additional compensation plan based on the performance and results of your employees.

That compensation can come in the form of a bonus, but make sure to keep it within reasonable limits. Overly generous rewards can be detrimental to your cash flow and could cause your employees to expect a fat check at the end of each month.

Additionally, you can consider fixing overspending on benefits such as health insurance. But you don't want to make these cuts willy-nilly.

Figure out which health insurance programs are the most important to your employees and keep them. Then, cut all the programs that appear less critical. It's best to give your employees different health insurance options and cover the premium only for the least expensive plan.

In that setup, it's fair to give the employees an option to scale up the health insurance plan by covering the extra premiums on their own.

#4 - Buying From the Wrong Vendors

Law firms that are buying exclusively from prominent vendors aren't doing justice to their business.

You know most major vendors expect you to play by their rules. There's no room to customize the offer to your needs because these vendors want businesses to check specific boxes. Plus, there's little room to negotiate better prices or get other perks.

Again, this is an expense you could easily overlook, but it's pretty easy to fix. Start by creating a list of all the prominent vendors you purchase from, then compare their offer to locally-listed vendors.

More often than not, you'll find that local vendors provide custom service for much less than you're spending now. But don't jump at the first local vendor that seems okay. It's perfectly fine to shop around a little to get an even better service.

#5 - Paperwork

Like a lot of attorneys, you're probably printing most of your documents. Little by little, those printing costs add up to a pretty hefty sum at the end of the year.

Just think about it; you need ink, paper, and the printers need regular maintenance. Plus, printers often refuse to play ball, and your employees waste time fixing the issues.

Okay, I understand they can go digital. But this doesn't mean you shouldn't make a conscious effort to minimize printing and the use of paper as much as possible.

Implementing digital documents and using online signatures are great ways to cut the cost of paperwork. The additional benefit is that the given actions will also streamline your workflow because they save time, resources, and there's almost no maintenance. That said, some digital documenting services come with a recurring fee, but it's usually much lower than what you're currently paying for paper and toner.

#6 - Failing to Make the Most Out of Technology

As indicated, technology can markedly improve your operations and help you cut costs even further. But this goes only if you take full advantage of the software and hardware you're using.

For example, a web or cloud-based app that can help you with invoices, customer services, invoicing, and HR would be great. It will boost the performance of your firm and expedite the delivery. The same goes for synchronizing your entire workflow with mobile devices.

However, the trick is to determine which apps and services are critical for running your firm. Any functionality, app, or service you rarely use should get removed. The same goes for software your employees find confusing or tricky to use.

In the same way you select vendors, you should shop around until you find the solution that's a perfect fit for your firm.

#7 - Traveling to Conferences

Traveling to professional conferences is fun, and it can help build rapport with your colleagues. But it can also put a significant dent in your cash flow.

I'm not saying you should stop traveling to conferences; just be very picky when choosing a professional event to attend. Set aside a travel budget for each year and figure out which events are a priority.

Also, consider attending web conferences because they are less expensive but allow you to communicate one-on-one with anyone you want.

Tackling Expenses = Stronger Cash Flow

To reiterate, keeping track of your expenses is tricky, especially when your law firm starts attracting more clients. More importantly, you might not be aware that certain costs are pushing the limits of your cash flow.

Now is the time to dive deep into your spending and pinpoint all the culprits that could be removed or reduced. I'm not suggesting you should make severe cuts that could jeopardize the quality of your service or the firm's culture.

The trick is to be sensible with your spending and make it your mission not to overspend on services that you don't need. That strategy will streamline your cash flow and allow for more room to grow the firm.

In the next chapter, growing your firm to generate more revenue is exactly what we'll be discussing.

CHAPTER 3

Growing Your Law Firm – How to Get There Faster

All law firm owners want growth, and they want it fast, regardless of the circumstances. But the current environment isn't great for growth. Not because the markets are slow or difficult to handle; the challenging factor is you.

Let me explain.

Scaling your business requires focus. Law firm owners who work on all legal matters aren't as successful as those who specialize. And one lawyer I spoke with recently called it ruthless consistency.

Think about it like this – who makes more, a general surgeon or a heart surgeon?

The heart surgeon, of course. They have refined the craft to perfection and become an expert in everything related to the heart.

Why should legal matters be any different… or accounting, for example?

Here it pays to consider some stats to highlight what I'm getting at.

IBISWorld published its 2020 analysis of the law firms in the US, revealing some interesting findings. Since the demand for legal services in 2020 was declining, the revenue fell by 2.6%. That happened due to a drop in corporate profit and stringent measures to cut costs.

But it's not all bad news.

According to IBISWorld, law firms that deal with unemployment and bankruptcy services can expect some growth. The same goes for legal services related to households because they should be in greater demand compared to corporate. Again, this is happening as most enterprises expect lower revenue.

Also, legal proceedings related to individuals, such as estates, wills, and trusts, are likely to be dominant in the market. It's safe to assume that the services tied to the real estate industry may be on the rise as well. And due to changing trends, there could be more demand in the private sector rather than commercial real estate.

Lastly, you should know that the legal market in the US experienced steady growth in the years leading to 2020. But the market does follow general trends in the economy and adjusts accordingly.

But what can you do to keep growing your business and avoid trends that could prevent you from scaling the firm? There are three key elements:

- Shining to a Value-Based Pricing Model
- Picking a Niche
- Identifying Your Ideal Client

This whole chapter will help you understand how to utilize the given elements to your benefit. When you achieve that, your revenue will be growing steadily regardless of the market shifts.

Value-Based Pricing vs. Hourly Billing

Value-based pricing is a tactic or a model where you set the prices according to the value of your service. To be more specific, you set it based on the value your clients perceive when provided with the service.

It's important not to confuse value-based pricing with the so-called cost-plus. The latter includes the cost of production, whereas the value-based model doesn't.

With value-based pricing, businesses that offer invaluable services have the upper hand to set their prices basically on client/customer satisfaction. That is – the clients understand that they're getting exceptional service and are willing to pay a premium for it.

To further the argument, the value-based model is typically applicable in markets where the service boosts clients' quality of life or their self-image. And I believe that legal firms fit the bill either way.

Being an attorney, you have the power to pull a client out of a legal problem or clear their name. Due to that, you're improving their self-image and quality of life simultaneously.

Still, there are certain things to keep in mind before adopting value-based pricing.

As indicated, your clients need to understand the value they'll be getting. Therefore, it's critical to provide a service that outperforms the competition or offers a unique edge. The service itself needs to be customer-focused, and it's vital you assess customer wants, motivation, and desires.

Furthermore, you should keep your communication channels open and make yourself available to the clients. Consequently, you'll start establishing respect and rapport, which build into the value of your services. Plus, the clients will be more inclined to give you feedback that should help you improve your services more.

Now, it pays to consider other reasons for switching to value-based pricing.

No Confusion About Billable Hours

More than 100 years ago, Reginald Heber Smith became the grandfather of billable hours. According to Smith, this pricing model is considered as a "*fair, logical, transparent, and indisputable method*" to assign value to legal services.

However, there's another side to the story.

Arguably, Smith was looking for ways to justify the high price of his services. He wanted to mimic the pricing model of his clients' businesses to give them more tangible evidence of the work involved.

And yes, the model worked great at the onset of the 20th century. But legal markets and services have evolved past the century-old pricing tradition.

I believe you're using technology to streamline your workflow and firm's processes. After all, we are way past the time of manual calculations and handwritten ledgers. Simply, technology makes everything faster and more convenient.

When you're billing for the time instead of value, you're actually depriving yourself of a portion of the income.

There's No Limit to Your Income

Let me guess: you take great pride in providing quality and speed. If so, the hourly billing model could be detrimental to your business.

Okay, since you offer speed, you could take on more clients. But how do you bill them for quality? Ramping up your hourly rates is one way to squeeze more money out of your time, but it's hardly the best way to do it.

If you stop thinking in terms of dollars-per-hour, you'll begin to focus on the value you bring to the table. Effectively, you'll zero in on your clients and the outcomes you can provide for them. Then, you can use your efficiency and expertise to set the prices much higher than with the hourly billing model.

No Anxiety When Invoicing Your Clients

Without a doubt, your clients want to know the cost of your services upfront. This is particularly important for more significant or more complex cases where the client's vested interest is high.

If you use value-based pricing, it should be easy for you to tell the client the price as soon as you understand their problem. That eases the friction, and your sales pitch is more likely to get accepted. But there are benefits on the clients' side as well.

Since they know the total cost upfront, the clients can set aside a budget for your services and plan their finance accordingly.

More importantly, you'll free your mind from thinking about billable hours since you know you agreed on a fair rate from the get-go.

Picking a Niche – Why It's Important and How to Do It

To use the medical example again, nobody would go to a general surgeon to perform surgery on their heart. And the same principle applies to other industries, law firms included.

I understand that niching may appear as a risky move since you're afraid the audience is limited. But don't worry, it's not like you're going to have fewer clients and struggle to maintain a stable cash flow.

As indicated, people are looking for specialists who have the expertise to solve their problems. Therefore, the pricing of specialist services is less sensitive and susceptible to change. Plus, there's less competition in the specialist space.

Just think about the number of commercial litigators who do everything. Now, compare that number with the number of litigators who specialize in healthcare litigation, for example. Suddenly, it becomes evident that niche competition could be easier to beat as long as you provide outstanding services.

To that end, marketing within a particular niche is more straightforward. You shouldn't struggle to determine your ideal clients and present them with your services. That allows for a clear marketing message that resonates with the ideal client's pain points and needs. Even better, your message and services will appear tailored precisely to the client's expectations.

When you truly become the expert within a niche, referrals will pour in. Word-of-mouth marketing will work in your favor, and you'll become the go-to attorney for specific cases.

Indeed, all of the above sounds great, but how do you choose a niche?

The rules to do that aren't set in stone, but if you follow the guidelines below, you shouldn't struggle to find the legal area to focus on.

#1 - Follow Your Passion

I’m sure you know the root of your passion for legal matters. For example, if you don’t have a problem handling emotionally charged situations, maybe you should practice family law.

Surprisingly, there are attorneys who don’t enjoy public speaking. But that’s not too much of a problem because they might thrive in the real estate niche.

If tax law appears to be your thing, then why not take up estate planning. Those who are into litigation may consider a personal injury or other similar areas.

The bottom line is that you should take the time to determine which aspect of law gets you excited and passionate. But don’t make the mistake of focusing on something just because it appears lucrative.

#2 - Figure Out What’s Trending

In law, there’s nothing wrong with focusing on the latest trends, especially if they’re in line with your passions.

Over the past decade, emerging areas include cybersecurity, sports law, LGBT rights, cannabis use and legalization, etc. Of course, these are just some examples, and the future trend is undoubtedly going to be legal matters around cryptocurrencies.

Interestingly, the given trends also represent some of the most lucrative work you can get. But remember, don’t jump into a niche only for the money.

Going with the trend requires you to learn and understand the odds and ends of a niche. And you don’t want to start doing something only to realize you’re in over your head.

#3 - Test Your Niche

After you figure out your niche or niches, it's time for testing. Yes, it's okay to choose several niches, then determine which one would be best based on market demand. But still, you need to be passionate about the niches.

Anyway, how do you do the testing?

Solicit some help and create a quick marketing campaign to see what's getting traction. You can set up social media ads and write some posts on niche-specific blogs.

The campaign doesn't need to be extensive, and you don't need to revamp your entire online presence right away. The goal is to gauge if the niche you selected works or not.

If you don't get the results you expect, it's perfectly fine to choose something else.

#4 - Create a Niche-Specific Marketing Plan

Once you find the niche that does the trick, you need to create a marketing plan.

Generally, the goal is to help the clients find your firm without trial and error. Also, you need to make it easy for the clients to reach out to you. Some firms even include online scheduling for client consultations.

But before that, you need to be clear on your ideal client. This is critical because the ideal client's profile will inform your marketing approach and messaging. These could be a bit different based on your niche, but there are some general rules.

At best, you'll find a balance between organic and paid marketing. Then, you'll use the right online and offline channels to promote your service, focusing on the value the clients are getting.

How to Create an Avatar for Your Ideal Client?

Thus far, I've mentioned getting clear on your ideal client and understanding the profile of that person. To understand what an ideal client avatar is all about, it pays to dig a bit deeper.

So, what is your ideal client avatar?

Imagine the person you'd love to see coming into your firm. The picture in your head pretty much sums up the ideal client avatar. But it's not only about appearances; the avatar has specific characteristics that make the person an ideal client.

Why is it critical to know the ideal client avatar?

As mentioned, the avatar is a powerful marketing tool because it helps you target your audience more effectively. But there is an even more critical aspect to it.

An ideal client avatar doesn't put your audience into specific groups, nor does it make any assumptions. Instead, it focuses on one ideal person and lists everything about that person.

The more information you can come up with, the better. That data will be invaluable to your marketing because it allows you to target ideal clients from different angles.

Another thing I want to stress is that you discover and develop an ideal client avatar rather than create it. This means you attribute characteristics and values to it based on your research and experience.

In many ways, creating an ideal client avatar is both an art and a craft. The following guidelines will help you get the right avatar without any friction.

Find Avatar's Goals and Values

When it comes to goals, these represent what your firm can do for the client. In other words, these are the goals your clients can achieve with your help. Think about what your ideal client wants and base the goals on that.

For example, your client might want to:

- Negotiate a better deal with investors and avoid litigation
- Find a clever way to cut down on taxes without breaking the law
- Finalize a divorce and keep the family financially stable

Of course, the given goals are just examples, and they can be different depending on your niche. But even the best of goals will do you little good unless they don't correspond to specific values. These could be honesty, transparency, efficiency, speed, etc.

Where Does Your Avatar Get Information?

This step is crucial because it will tell you where to look for your ideal client. Also, knowing their sources of information may affect your marketing messaging.

For example, if most of your ideal clients find information on LinkedIn, the messaging will be different compared to Facebook. Anyway, you'll aim to create a list of sources focusing on the following:

- Magazines/Newspapers
- Websites/Blogs
- Books
- Role Models/Gurus (these are the people your avatar follows and trusts)
- Other Sources

Knowing the avatar's sources of information, you'll understand the language that makes your ideal clients tick. Also, you'll figure out what ideas make them excited.

Avatar's Demographics

The ideal client avatar is fictional, but this doesn't mean it lives outside specific demographics. Quite the contrary, the avatar has a name, gender, and the person lives at a particular location. You should also know their age, marital status, and the number and age of their children.

Gathering all this information helps you paint a pretty accurate picture of the person you're targeting. As said, the goal is to know exactly who you're targeting to help improve the performance of your marketing.

Identifying Challenges, Pain Points, and Objections

The challenges are the problems your ideal client avatar is facing, and these are the things you can help them with. Pain points are a bit broader and may represent the fears of your client.

For example, they could fear losing their assets or business if they fail to resolve a particular legal conundrum.

As for the objections, they represent the client's doubts regarding your services. That is – the clients may doubt that you can actually help, and your job is to lift those doubts.

Lastly, challenges, pain points, and objections may be different based on the legal niche you choose.

The Keys to Faster Growth

The first step for scaling your law firm fast is to find a niche and stick to it. This is how you'll be able to attract more clients and become the go-to firm for specific legal problems. But don't forget to be careful in picking your niche to avoid getting stuck in the work you aren't passionate about.

Then, it's best to switch to value-based pricing since billing by the hour may deprive you of a portion of the revenue. Doing that is a bit of a process, but when you complete it, you'll be amazed by the results.

In the end, you need to create the ideal client avatar to be sure about the people you're targeting. But this isn't the end of streamlining your legal practice; there are more ways to make savings and boost your revenue.

CHAPTER 4

Tax Minimization

Most people dread paying the IRS when their taxes are due because they're afraid there won't be any money left to cover other bills. As an attorney, you'll be asked the following question many times:

"When is the next settlement planned to hit so I can pay the IRS for last year?"

But to tell you the truth, none of my clients sound like this. Regardless of how dreadful the taxes may appear, they know they can cover the bill and have plenty of money left.

How?

Together, we've been working from the beginning of the year to create tax projections. To be exact, we begin projecting how much they're going to owe in January. When November and December come, we only need to review the tax projections to determine if there were any last-minute changes.

However, reviewing and checking for last-minute moves doesn't reveal that the clients need to pay more. Instead, it generally shows that my clients can make more reductions to their taxes.

Now, this may sound too good to be true, but I want you to stop and think about it.

Since my clients have been computing taxes throughout the year, there are no surprises. I gave them a system that takes the pain out of taxes every year. And I'm sure you'd like to enjoy the same thing.

Let me use a positive client example to show you how powerful this taxation system can be.

Mrs. Bigbucks and Her Taxes

Mrs. Bigbucks is behind a super-successful M&A firm, and she never struggled to pay her taxes. The system she was using appeared fine, but little did she know that she could have been saving much more than she did.

Being a savvy business person, Mrs. Bigbucks immediately understood what our comprehensive tax system is all about. We implemented our 60-point tax planning strategy to figure out where she could make additional savings.

And the results were terrific…

It turned out that there were two changes she could make right away and save upwards of $60,000. This was only in the first week of becoming our client.

Can you imagine what kind of money she's saving now?

Without going into details, it's a lot – and there's no reason you can't do the same.

The Key Mistakes Business Owners Make With Their Taxes

You already know that disregarding your tax planning throughout the year is a big mistake, but it's hardly the only one. Here are a few more to keep an eye on.

#1 - Failing to Report All Income

Your tax return will surely end up being audited should you fail to report all your income. The last thing you want is the IRS scrutinizing your finances to gauge how much you failed to report.

Keep in mind that you need to report all the income to the IRS, no matter where it comes from. The types of income you might not account for include:

- Side jobs/projects
- Interest on your bank account savings
- Dividends (if you have a brokerage account)

Also, unemployment benefits are taxable. I believe you aren't getting those, but it wouldn't hurt to know.

Anyway, you should list all the income and review your return before submitting it to make sure you haven't missed anything.

#2 - Selecting the Wrong Business Entity

Small businesses commonly choose an LLC or C corp entity, but that could be the wrong choice. You should consult with your CPA before selecting the entity to take advantage of tax cuts a given entity may allow. The criteria for choosing the entity are the following:

- The business structure of your firm
- Employee count
- Your financial goals

The entities to choose from are Sole Proprietorship, LLC, Partnership, C corp, S corp, etc. There's also an option to be a Nonprofit, but I assume you don't want to run that kind of a law firm.

Why is choosing the entity so critical for taxes?

If you're a C corp, you're playing double taxation. That means the business pays taxes and the owner pays taxes on dividends. With a Partnership, you're getting less liability protection, and an LLC may cap the outside investments you can get. And you may pay too much in self-employment taxes.

#3 - Mixing Business and Personal Expenditures

Surprisingly, this is a prevalent mistake and it will surely catch the eye of the IRS.

To be precise, you mustn't attempt to deduct expenses that aren't directly tied to your business. For instance, some business meals can't be written off as a business expense. The same goes for the commute cost.

When you consider deducting business trips, you need to be extra cautious because the law can get confusing. If you treat yourself to a fancy dinner on a business trip, that's not deductible. But other expenses that tie to the business aspects of the trip can be deducted.

On the other hand, if you work from a home office, that is a deduction, but it's often more beneficial to pay yourself rent. It's possible to deduct tolls, auto loan interest, property taxes, etc.

The point is that there's plenty of room for deductions, but you need an experienced CPA to help you pinpoint all of them.

#4 - Payroll Mistakes and Poor Records

In all honesty, maintaining clean, well-organized records isn't the strong suit for most business owners. But I'm not trying to blame anyone; it's not hard to forget to update everything when you're busy.

You may forget to add a purchase receipt to your files and end up paying a huge price for such a simple mistake. It's not like that this mistake would compel the IRS to seize your assets. But you could miss a chance to make deductions and therefore lose money.

Additionally, if your firm gets audited, it's critical to have every piece of paper, pay stub, invoice, and suchlike. Therefore, you need to double down on your efforts to keep everything and organize the documents neatly.

#5 - Wrong Staff Classification

Again, this is a pretty common mistake and one you can easily make. But let me put this into context so you understand what's happening.

There are businesses that employ independent contractors aiming to make savings during the tax season. But independent contractors who have to work on-site or for a fixed number of hours could qualify as full-time employees.

To prevent raising red flags with the IRS, you need to understand their employment stipulations. If not, the penalties for this mistake are severe and could ruin your cash flow.

Minimizing Your Taxes – The Little Tricks You Need to Know Come Tax Time

Critical mistakes out of the way, it pays to understand certain aspects of an effective tax minimizing strategy. Here are a few tricks to consider.

#1 - Deduct Relevant Expenses

In the previous section, we discussed some deductible expenses. But let's get deeper into them so you can understand your options.

If you're working from a home office, you can deduct all the expenses related to that space. That includes the utilities, office insurance, repair and maintenance fees, mortgage interest payments, etc. But, if you have an outside office, you can pay yourself rent for less than 15 days a year and save thousands in tax.

With this in mind, you need to determine exactly which part/percentage of your home is the office. There's tax software to help you understand where to draw the line. But the great thing is that you're eligible for a deduction even if you're just renting the space.

A similar trick works for your car, and you need to determine which percentage of the vehicle is used for business. Then, you can apply that percentage to total expenses regarding your vehicle.

#2 - Contribute to Charity

There are two takeaways when you contribute to charity.

First, you're setting up your firm as a socially responsible company. Plus, your employees can enjoy contributing to a meaningful goal.

But this is also a chance to make significant tax cuts. These commonly equate to the value of the thing you donate. That said, there are certain limitations for charity tax cuts in 2020, but these aren't necessarily related to law firms.

Generally, the deduction for one person caps at $12,400, and if the spouses file jointly, the limit is $24,800. These numbers are only for 2020, and they might change, so you'd need to determine how much you should contribute before you actually do it.

Now, if you itemize your deductions, you could deduct even more between property tax, mortgage interest, and charitable contributions.

#3 - Pay Retirement Accounts First

If you're self-employed, it's possible to reduce your taxable income if you put additional money into your retirement fund. The money isn't subject to taxes until you start withdrawing the funds when you retire.

Business owners who are 50 or younger have the option to add $5,500 to Roth IRA or traditional retirement. This is as long as they own a small business, and if you're older, you can add $6,500.

Of course, you don't need to allocate that much towards your retirement. Come up with the number that wouldn't hurt your cash flow and go with that. Then, when your cash flow increases, you can start adding more.

#4 - Take Advantage of Your Losses

2020 was a challenging year for most businesses, law firms included. But the situation isn't as bad as you might think if you understand how to make tax laws work your way.

The CARES Act allows some businesses to apply for a net operating loss back to the past five years. If their application gets accepted, they might receive immediate refunds. But with the IRS, they might not be immediate. You may even feel compelled to boost your losses in 2020, for example, to increase the refund.

But you shouldn't try to carry out this strategy on your own. There are different IRS nuances to account for. Therefore, you'd need to consult with a CPA.

#5 - Understanding the Taxation of PPP Loans

This relates back to the CARES Act that actually introduced the PPP (Paycheck Protection Program). Within the program, small businesses can take out loans to cover payroll and other specific expenses.

If your firm meets a set of conditions, you can apply to get the loans forgiven. Also, PPP loans aren't subject to tax, but the setup isn't as simple as it appears.

The IRS began to tax expenses that were previously deductible if you use PPP to cover those expenses. For example, the payroll cost is one such expense.

The Five Things You Have to Do to Protect Your Business Assets

At this point, you know what mistakes not to make and where to look for tax cuts. But this isn't enough to fully streamline your business and cash flow.

You need to do everything in your power to protect assets and ensure you don't cross-pollinate between business and personal issues. Let's see what you should be doing.

#1 - Develop a Strong Insurance Plan

Most experts agree that an insurance plan is the first line of defense to safeguard your assets.

Start by taking out business insurance. This could include several policies that cover property, liability, business interruption, etc. The goal is to protect the property you own and get decent coverage if anyone chooses to sue you.

Consider BAP (Business Automobile Policy), which should cover your car and introduce an extra layer of liability protection. The BAP premiums can be pretty high, but it's money well spent should you end up in a lawsuit.

Finally, it pays to invest in umbrella insurance to cover everything that's not in your other policies. This type of insurance can prevent creditors from taking over your assets if it ever comes to a settlement.

#2 - Create a Multi-Layered Plan

Creating a multi-layered plan means that there are different ways you can defend against lawsuits and creditors. For example, choosing the correct entity is just one layer of protection. But when you start adding insurance and other asset protection tools, you get more layers.

One option to create a multi-layered plan is to set up an asset protection trust offshore. It should be inside an offshore LLC. Plus, your money should be in a bank that's outside of the domestic judges' reach.

This kind of strategy is used by some of the most profitable companies. But you need to be cautious not to send the wrong signal to the IRS and lead them to believe you're attempting to hide your assets.

#3 - Use Business Entities to Protect Assets

If your personal and business assets are lumped into one, all your assets become exceptionally vulnerable. Not to scare you, but there's a risk you could lose all of them in one go.

What can you do to protect them?

As indicated, your personal and business assets have to be separate. And this isn't just something you separate in your head. You need to put it in writing and create a buffer that will protect a significant chunk of the assets.

The entity options at your disposal are corporations, limited partnerships, and LLCs. We've discussed these in one of the previous sections, so there's no need to do it here. But remember, it's best to consult with your CPA before you choose one entity or another.

#4 - Set Up a Trust

One of the best ways to future-proof your cash flow is to set up an asset protection trust. In doing that, you'll safeguard the assets from creditors and unexpected changes in the market.

However, these trusts are pretty complex, and you need to consult with relevant experts to help you with the process. At this point, you should know that there are two types of trusts – revocable and irrevocable.

A revocable asset trust can be changed at any given moment. Being the settlor, you have complete control of the assets within the trust and can change the terms.

#5 - Don’t Wait Too Long to Protect Your Assets

If you start considering asset protection when you face a lawsuit, you have a problem. In the US, there are state laws that will label your late transfers as an attempt to defraud your creditors.

As you might know, these are civil matters, but that doesn’t make them less impactful on your assets. A judge could simply reverse the asset transfer, and you’ll lose them in a single fell swoop.

The bottom line is that you need to plan well ahead of the game and utilize all the resources that keep your assets in your hands.

Paying Less Tax Means You Increase Profits!

The old adage goes something like this:

“Two things are certain in life – death and taxes!”

Comical as it sounds, this catchy sentence is true. However, it doesn’t imply that you should be overpaying the taxes.

The system has been set up in such a way that there’s plenty of room to make cuts. The only thing is that you need to understand how to do it without tipping off the IRS.

This chapter has given you a bunch of tricks to use, and if you need any help, don’t hesitate to ask. When you have your cash flow and taxes in check, it’s time to start thinking about your legacy.

CHAPTER 5

Estate Planning and Business Legacy

Do you have a will?

If not, now is high time to create one!

Honestly, I was surprised to learn that most attorneys don't have a will. So, I'd like to put things into context and discuss the imaginary case study of Mr. Unprepared.

Like you, Mr. Unprepared doesn't have a will. But he's built $10 million in annual operations, plus he owns the land that will be in the family for generations to come. Also, he paid off his house, cars, and vacation properties.

So far, so good. But Mr. Unprepared hasn't yet found the time to get his will crafted. Or, he didn't create an estate plan to make the transfer of assets easier for the family after he passes away.

Why?

The first reason is psychological.

Hardly anybody wants to think about estate planning or a will, particularly when they're in their prime. But this is the wrong mindset because it may cause many legal, financial, and emotional problems for the family if the estate holder suddenly passes away.

The second reason is lack of time.

Building a multi-million-dollar operation is time-consuming, and I know that there's little room to consider matters that don't seem to be a priority. However, planning your business legacy, succession, and estate is a priority.

If you can't find the time to gather all the necessary information and create your own will, it's best to consult with a specialist. Estate laws are changing every year, and if they aren't your area of expertise, find a colleague who can do the work for you.

To help you figure out the right strategy, the following sections outline the common mistakes associated with succession planning.

The Mistakes That Business Owners Make With Succession Planning

What is succession planning?

It's a process of planning the transition of leadership before you retire. It involves assessing internal talent to take over critical leadership roles, then training the right candidates to ease the transition. Or, it may include sourcing and training new talent.

Consequently, succession planning allows for more efficient talent management. You'll be able to pinpoint the key roles in your firm. But also, you'll identify the positions that should be filled soon after you step down.

The main benefit of doing that earlier rather than later is that you'll be able to cut down recruitment costs in the long run. Even better, it might enable you to handle all the recruitment internally.

To put that into perspective, some studies show that the number of leaders who are about to retire is much higher compared to those who enter the business.

Therefore, it's wise to start preparing well in advance and prevent a leadership buffer in your firm.

Mistake #1 - Allowing Fear to Play Into Your Decision

I mentioned that lack of time is one of the reasons people avoid planning their business legacy and estate. But deep down, you know time constraints are just an excuse.

After some introspection, business owners come to understand that fear is the primary reason they postpone succession planning.

To make things more challenging, a leader's personality is often tied with the company. In other words, it appears that no one else would fit the role. But that's perfectly normal since a leader has spent a huge amount of energy, time, and effort to build the business.

Do your best to transform that fear into motivation to start grooming your successor as soon as possible.

Mistake #2 - Starting the Planning Process Too Late

To understand why timing is critical, it's best to explore GE's (General Electric) succession planning strategy.

Not that long ago, GE's HR Senior Vice President stated in a publication that it took six years to complete the process. The company allowed the candidates to grow into the new role and grapple with its challenges.

Also, the company created a comprehensive job description, allowing the candidates to fully understand what's expected. The key aspect was that the job description kept evolving with the changing demands of the industry.

And when GE finally chose an internal candidate, it took four years before the person became the new CEO.

Mistake #3 - Creating an Atmosphere of Competition

The idea that competition is always healthy and conducive to great results isn't entirely true. Team competitiveness may help you win more cases, but it's likely to turn succession planning into a disaster.

There are two common scenarios you may encounter.

First, potential successors may compete too hard, driving their team to pit themselves against everybody else in the firm. Second, it's not uncommon for leaders to begin to see potential successors as a threat.

Keep in mind that succession planning is supposed to help you place the right person in the leadership position. And if you determine that potential successors have become overly competitive, you need to be proactive and remind them it's not about anybody's ego.

Mistake #4 - Failing to Consider the Firm's Future Needs

Before you even start to consider potential successors, it's vital to carefully assess your company's future needs. This will help you gauge the responsibilities and competencies of the person who's going to step into your shoes.

Also, you need to anticipate how technology is going to change and affect your business. But don't focus only on your field; consider the implications of technological advancements on the entire legal industry.

Doing that is important because it helps scale your business faster when you're gone.

Mistake #5 - Keeping the Process a Secret

Being critical to scaling your business after you retire, succession planning isn't something you should keep under the radar.

There is no reason not to communicate your plans with the rest of the organization. In fact, secrecy can backfire big time. High-potential employees may choose to leave because they can't see the opportunity to advance in the near future.

But if you're transparent about your plans, your employees are likely to feel motivated to excel and stay with the firm for the long haul. Also, they might push hard to reach, if not exceed, the firm's goals.

Planning Your Estate – The Five Things You Need to Know

Once you know the challenges of securing your business legacy, it's time to move onto your family legacy and retirement. Let's start with a quick explanation of estate planning.

Your estate includes everything in your possession – your home and other properties, your car, different bank accounts, insurance policies, etc.

Everyone has an estate, whether big or small. The important thing is that you have control over what happens to it after you pass away. And that brings us to estate planning.

Similar to succession planning, estate planning is a process where you decide who gets which part of your estate. The idea is to adopt a strategy that will minimize the amount of legal fees, taxes, and court costs after your family inherits the estate.

Simply put, you're planning in advance and naming those who are to receive parts or your entire estate without incurring too many costs. But the process may also involve:

- Disability arrangements
- Transfer of business in case of sudden death
- Naming your children's guardians
- Taking care of family members who can't do it on their own
- Creditor protection

Also, I should stress that estate planning isn't a one-time deal but an ongoing process. This means it's fine to reevaluate your plan and make changes if necessary.

Now, here are the key things to keep in mind.

#1 - Understand the Role the Courts Play

After a person passes away, the assets included in their will usually go through probate, and this is where the courts come in.

During the probate process, a court provides instructions on how to distribute the assets, but the process is often expensive and lengthy.

More importantly, certain assets like brokerage accounts and bank savings get unnecessarily probated. To avoid that, you can introduce TOD (Transfer on Death) designation into those accounts, allowing the beneficiary to avoid probate and receive the assets without going to court.

If you hold these accounts, it's best to consult with your bank to set up TOD in advance.

#2 - You Need to Create a Will

I've already discussed the importance of having a will, but let's look at it from a different perspective.

Consider your will as a rulebook on how to distribute your assets. Additionally, it's like a safety net that prevents a major financial and emotional rift in your family after you pass away.

Another consideration is that these documents are pretty inexpensive. Of course, the specialist's fee will depend on the size, complexity, and location of your estate.

#3 - Selecting an Estate Administrator

An estate administrator is a person responsible for acting according to your will after you pass away. This person is also known as the estate executor, and it's absolutely critical to choose the right person to fit the role.

Whoever it may be, they need to be exceptionally accountable, honest, and in good mental health. Otherwise, there's a risk all your assets might end up in the wrong hands.

In most cases, people assume their spouse is the best choice for the estate administrator. But this isn't always the case. Your spouse is emotionally involved, which may cloud their decision-making.

#4 - Consider Creating a Living Trust

A living trust is a good option for two reasons.

For one, it's another way to transfer your assets without having to go through probate. Plus, a living trust gives you the option to choose someone to manage your assets if you get disabled and your assets are frozen.

The trust you establish could be the owner of all your assets, including real estate, vehicles, bank accounts, etc. Sure, you can be the main trustee, but there's an option to choose your successor to oversee the affairs after you pass away.

#5 - Outlining Account Beneficiaries

Beneficiaries are individuals or organizations that will receive your assets and estate. Designating beneficiaries is critical because it's how they get your life insurance, retirement and brokerage accounts, and pensions.

Make sure to update your beneficiaries if need be, or your ex-spouse could end up with a chunk of the estate.

To that end, your current spouse or partner may automatically inherit some parts of the estate. Whereas other parts could be the subject of probate. Therefore, it's vital to hold the title to bank accounts and other possessions in such a way that it benefits both of you.

Plan for the Future

By now, you should have a much better understanding of how to set up and manage your personal and business legacy without falling into some common pitfalls.

To stress yet again, it's never too early to start planning your successors, estate, and retirement. And you need a will to provide guidance on how to distribute the assets.

Of course, a will isn't set in stone, meaning you can change its clauses or beneficiaries as your life circumstances change.

But there's one more thing I'd like to share in the final chapter – IOLTA accounts.

BONUS CHAPTER

Managing an IOLTA Account

IOLTA stands for Interest on Lawyer Trust Accounts. Based on the state where you live, the rules for these accounts will vary, but there's one thing that's always the same.

The law firm is accountable for keeping tabs on all the funds. Also, the firm's responsible for using the funds to the benefit of a client. Any other way and the firm is in a breach, which may result in disciplinary action or prosecution.

To further the explanation, an IOLTA account includes multiple parties, while a trust account is designated to a specific party. That brings us to the question of whether you should set up a trust or IOLTA account.

Commonly, this is something an attorney should choose for you. And since you're an attorney, there's also an option to do it on your own or make these arrangements for your clients.

But the IOLTA account rules are quite nuanced, so it pays to dig a bit deeper.

One of the basic rules involves the best timing for depositing the funds. Commonly, the funds get into the IOLTA account when they fail to bring in enough money. That happens either because you've held onto the funds for too long or the funds themselves are insufficient.

But attorneys are not supposed to record retainers received as income until they complete the work performed to earn it. Otherwise, it may appear that they're trying to take out funds for purposes other than their retainer.

You need to be very careful about who has the signed authority over an IOLTA account. Again, each state has its own rules for that, and usually, a person's lawyer is responsible for the account.

It’s obvious that IOLTA accounts require special vigilance and expertise. In the sections below, we’ll help you make sense of it all.

The Common IOLTA Mistakes You Should Avoid

#1 - Commingling the Firm’s Funds With Clients’ Money

Lack of understanding of how IOLTA accounts are supposed to operate may lead to this mistake.

For instance, an attorney may tell the client their fees and court filings amount to $2,300. Then, the client writes a check for that amount and the attorney puts all the money into a business account.

But this is the wrong way to do it.

As per the bar association, the money needs to go to the IOLTA account, despite the fact an attorney can take out the entire fee. This is because the court filing fee needs to be in IOLTA, not an attorney’s business account.

Accordingly, there are states that prohibit keeping personal funds in a trust account. But there are those that allow attorneys to have enough funds there to cover the operational costs.

At best, all the account fees should be taken from a business account. As you might expect, that doesn’t always happen. Then again, attorneys aren’t allowed to use IOLTA for anything other than a trust account.

#2 - Borrowing Money From the IOLTA Account

Some attorneys attempt to borrow money from an IOLTA account, but there's no legitimate way to do it. Plus, there are attorneys who use the funds before they're eligible to do so.

This may occur if attorneys have cash flow issues. Or, they might need to cover expenses such as office rent, payroll, and other recurring fees. And it's not uncommon for the lawyers to take out much more than they're entitled.

Now, it's worth noting that an attorney might intend to return the funds. However, the borrowing may spiral out of control and end poorly for the client and the attorney. And it doesn't help that some attorneys are just not careful enough about the rules and regulations.

But an attorney is still accountable for returning all the embezzled funds. And the same goes if the misconduct itself was done by an accountant or a paralegal.

When it comes to repairing that kind of account mistake, litigation usually means the end of career for the attorney, or whoever committed it. So, you need to ensure not to borrow money from an IOLTA account.

#3 - Poor Client Funds Tracking

Attorneys need to keep comprehensive records of all their trust accounts (IOLTA included). As a rule, attorneys are good at that, but some fail to note a file number or client's name when each check gets issued.

In rare cases, all the records may get destroyed in an office fire, for example. If that happens, a lawyer has to reconstruct the records from old checks and bank statements. But if the checks don't show whose money was involved in the transaction, it's impossible to reconstruct the documents.

And as you might know, each attorney needs to keep a clear record of the amount of money their clients have at a particular time. Disbursements and deposits also need to be tracked so that a client's balance on an account is clear.

If attorneys fail to keep these records diligently, it's not hard to transfer the funds from one client to another. Understandably, errors may happen, but it's pretty straightforward to spot a mistake in clean records. For instance, a simple comparison of different balances should reveal the error. Plus, technology is changing the ease of keeping track of a client's IOLTA balances.

The Four Best Practices for Setting Up Your IOLTA Account

Knowing the common mistakes, it's clear that you should be particularly vigilant with an IOLTA account. Here are key practices to keep in mind.

#1 - Make Sure You Choose the Right Financial Institution

As said, each state has specific IOLTA rules and that's why you need to be careful with selecting a financial institution.

But how do you do it?

Simply, you need to dive deep into the state rules and follow them to a T. For instance, certain states issue a list of financial institutions and you can't go outside the list. This is because the given institutions follow all the accounting specifications related to IOLTA accounts.

Possibly, the state bar may request keeping certain documentation. For example, lawyers are often required to officially inform the state authority every time they open a new IOLTA account.

Lastly, I'd like to remind you that the IOLTA account can't be used to cover legal expenses. Therefore, it's best to consult with your bank to determine how they handle the expenses. It's possible a bank would offer a program that leaves the IOLTA funds intact.

#2 - Select Appropriate Signatories

Signatories are the people who have the right to sign checks and withdrawals from an IOLTA account. The best practice is to have only one person as an authorized signer.

And yes, this brings enormous responsibility. But choosing only one signer may save you a lot of headaches later down the line.

To make an informed choice, it's best to check the state rules and base your decision on them. That's especially important if you're considering a non-attorney for an authorized signer. That being said, there are some states that don't allow a non-attorney to take this role.

The bottom line is that attorneys are entrusted with the money. And it's their accountability to make sure that all the people who have access to the funds handle the money with care.

#3 - Create a Dedicated File for Record Keeping

States issue their own requirements for recordkeeping on trust accounts. This is because all the records need to be easily accessible by the state bar and the client. You might be required to maintain records for the following:

- Disbursements and withdrawals
- Monetary transactions
- Deposits
- Monthly reconciliations

Do your best to create a system and maintain clean records based on the state requirements. Both of which will save you a lot of trouble in the long run.

#4 - Ensure That Overdrafts Will Never Be an Issue

To prevent overdrafts, your law firm should have a trust account and overdraft fees aren't likely to occur.

On that note, a properly managed IOLTA account shouldn't get overdrawn. So, there's no need to worry as long as attorneys do what's required.

You should also know that the overdraft protection requirements are different from one state to another. Some allow protection coverage for NSF fees and bank charges. In contrast, others ban this protection and keep a watchful eye for any suspicious activity.

With that in mind, you should always remember that IOLTA is for safeguarding the client's money. Therefore, it's not surprising that adding more money to it may result in a reprimand.

Be Wary of the IOLTA Account Challenges

Whichever way you look at it, IOLTA accounts are specific and tricky to manage. As a result, it's not difficult to slip into bad habits and risk your reputation.

This is why it's critical to be vigilant at all times when handling an IOLTA account. Otherwise, there's the risk of raising concerns with the client or the state bar.

CHAPTER 6

Introducing the Show Me the Profit Framework

Time always wins!

But how, and why?

If you take a closer look at why many businesses fail, it's easy to see that TIME is the reason, not money. I mean, it's the compounding effect of time that leads to a commercial crisis. Or it can lead to authentic prosperity.

But let me explain that in more detail.

Attorneys ready for the right actions set themselves on the path towards authentic prosperity. That means they do everything in their power to move the dial and avoid making common mistakes when growing their business.

Now, that may lead you to believe that some significant actions are necessary to set your law firm on the right track. Or, you might think that it's required to completely pivot your business.

However, it's not like that at all. In fact, trying to make many colossal changes at the same time may backfire and lead to crisis rather than prosperity.

How should you do it then?

To get the ball rolling, you need to dedicate yourself to making small changes every day, week, and month. Sure, this may seem insignificant at the start. But, at the end of a year, these small actionable steps produce momentum, and you'll be amazed at the compounded benefits of your efforts.

Indeed, this sounds enticing; it's the logical thing to do. However, many people still fail to understand what's necessary to grow their business. They believe it’s enough to service the clients, and the money will keep pouring in.

That approach may work well for a few months while your firm is still very young. But once your team grows, so does your accountability.

It’s vital to go above and beyond to secure a stable cash flow and new clients and ensure they understand the value of your services. Should you fail to do that, the road you’re taking sets you towards a commercial crisis.

You know, wrong actions or not taking any action also have compounding effects. And there are some telltale signs that while the money and cash flow are good, the pace cannot be sustained.

Are you feeling overworked?

Is the stress from running the business and working with clients overwhelming?

Maybe you believe you’re not earning enough?

If the answers to these questions are yes, your business is on a downward path. Now, you may have projected prosperity and have some plans on how to get there. But projected prosperity is worlds apart from authentic prosperity.

In my experience, projected prosperity is a commercial crisis in disguise. You see something that isn’t there and have some understanding of what you need to do. But there’s no action and there are no results.

You are just either riding the wave or working your butt off to try to get it there. Hey, I've been there. I fell into the “work harder and it will get better” mentality. I've lived it. But when your work requires your utmost sharpest tool, your brainpower, burning the candle at both ends comes at a cost.

So, it’s high time to change your ways, and this has a lot to do with your perception of the past and present.

Present vs. Past

Is there something you lost in the past? What did you learn from that experience?

Take the time to think about how you'd answer these questions. And if you struggle to come up with what you learned, then the past doesn't effectively inform your decision-making and actions in the present.

But what is the present?

As time passes, the present is what's going on in the here and now. Also, I believe that the present shows you the future is starting right now.

So, why would you wait to get on the green line? What's the green line, you ask?

There's no reason.

And if you think you're on the green line but you're not getting the results you want, I guarantee there's someone in your firm that's not on the green line. Maybe it's you?

Whatever the reason, you need to find something to get back on the line, and that's where we can help. Trust me. We know that the future accelerates towards the end, and we know how to get you there and keep you there.

Imagine this – your business starts generating profit far beyond what you could have done on your own.

Yes, that's possible if you understand what future acceleration looks like. And we have a field-tested framework that puts you on the green line and really accelerates your future.

But we can't do it unless you choose to be on the green line yourself.

Are you ready to do it?

Let us show you exactly how time compounds negative behavior. But rest assured that you’ll also learn how time compounds positive behavior.

For more resources or to start the Show Me The Profit™ system visit lucrumaccounting.com.

Paula Field started her career in business back in 1982. Her family ran a Hallmark store, and they grew the business to seven stores in 20 years. And that's where Paula developed a passion for accounting.

After her family got out of the retail business, Paula began dedicating her career to accounting. Her experience in the family business helped her understand all the challenges small businesses face.

In the last two decades, Paula has been focused on providing top-notch services in accounting, tax planning and resolution, profit mentorship, and more. Paula's combined experience makes her one of the leading experts in the accounting space. She has the power to transform your business.

This book focuses on how attorneys can scale their business and reach a greater level of financial success. The author explains the key differences between cash flow and profit and provides actionable tips on better managing your assets.

Most prominently, she offers firsthand insights on how to grow your law firm quicker and set the proper pricing for your growth goals.

In this book, you'll find tips on minimizing risks, protecting your business assets, and how you can plan your legacy. You'll also discover the Show Me the Profit Framework that will allow your law firm to experience authentic prosperity.

www.lucrumaccounting.com

High-Tech • Profit-Driven • Daily Insights • Award Winning Team

$17.95
ISBN 978-0-578-90254-8
51795>
9 780578 902548