



Legal Sector Breakfast Briefing

Wednesday 27 September 2017

York





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Legal Sector Breakfast Briefing

Welcome

Andy Castle
Area Director, N & E Yorkshire
Lloyds Bank

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Legal Sector Breakfast Briefing

Introduction

Tom Blandford
Legal Sector Director
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- 8.00am - Arrival and breakfast
- 8.30am - Welcome
- 8.35am - Briefing
- 9.30am - Q & A
- 10.00am - Close

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Developing succession planning strategies

Peter Scott

Peter Scott Consulting

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What is Succession Planning?

Ensuring the current and future well being of a firm by reconciling the interests of –

- Older partners
- Younger partners
- Key staff, including associates
- Managing partners
- Clients
- Sole practitioners

Succession planning is strategic

- Future – proofing a firm
- Succession issues are also acquisition opportunities

And **forward planning** is key

- ‘A realistic plan or course of action to gain *competitive advantage*;
- Which has clear and achievable *objectives*; and
- Uses available (but scarce) *resources* (existing or to be generated)

What should a plan aim to do?

- To make optimum use of all productive resources within the firm and to secure the current and future well being of everyone in the firm
- Different sizes of firms will need to adopt different strategies
- Firms need to **creatively** think how to make best use of what they have
- Most importantly, the plan must meet the needs of the overwhelming majority of the partners

Considerations

- How do we maximise Partner value – both in the short and long term?
- Are we properly organised and managed?
- Are our practice areas future proof?
- Is our age/practice profile aligned?
- Do we know what our younger partners/senior associates want/expect/need?
- How do we keep older partners motivated to hand over relationships to the next generation?

Our strategic focus and people – are they aligned?

- Are we in the right place for now?
- Are we in the right place for the next ten years?
- Have we got the right people in the right places?
- If not, how do we get them?
- How do we replace retiring partners?
- We need to be an attractive option for new entrants – i.e. we need to be a profitable business.

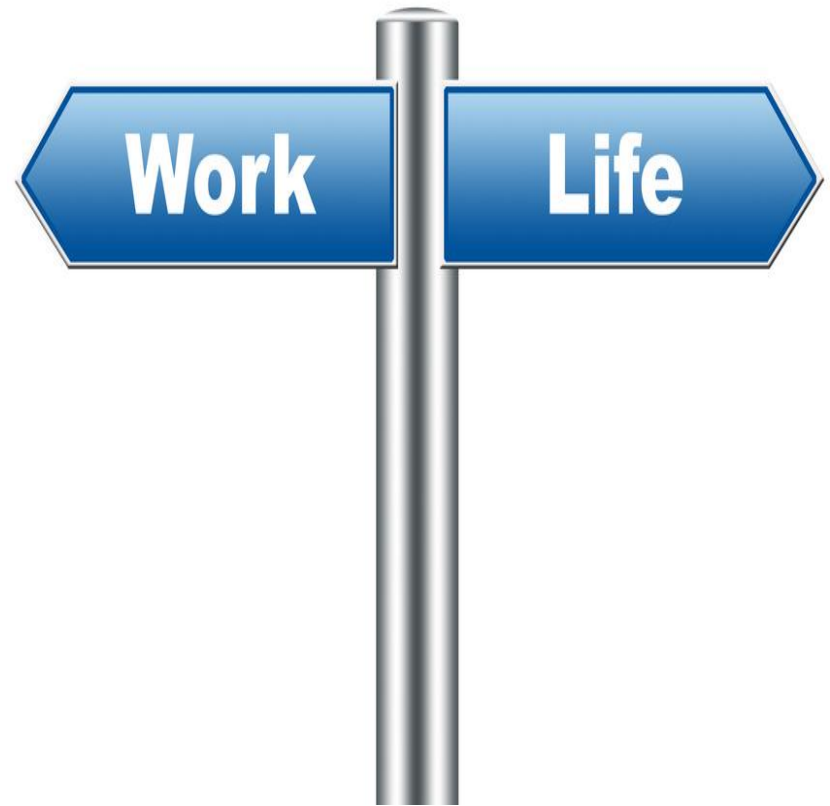
Succession planning should be part of designing meaningful career paths

- Career paths for associates when fewer partnership options are available
- Alternative career options?
- Does the ABS open up opportunities?



Managing career expectations

- Is partnership still the 'holy grail'?
- No stigma to not being a partner
- How to make your firm the place where people want to work?
- Ask them

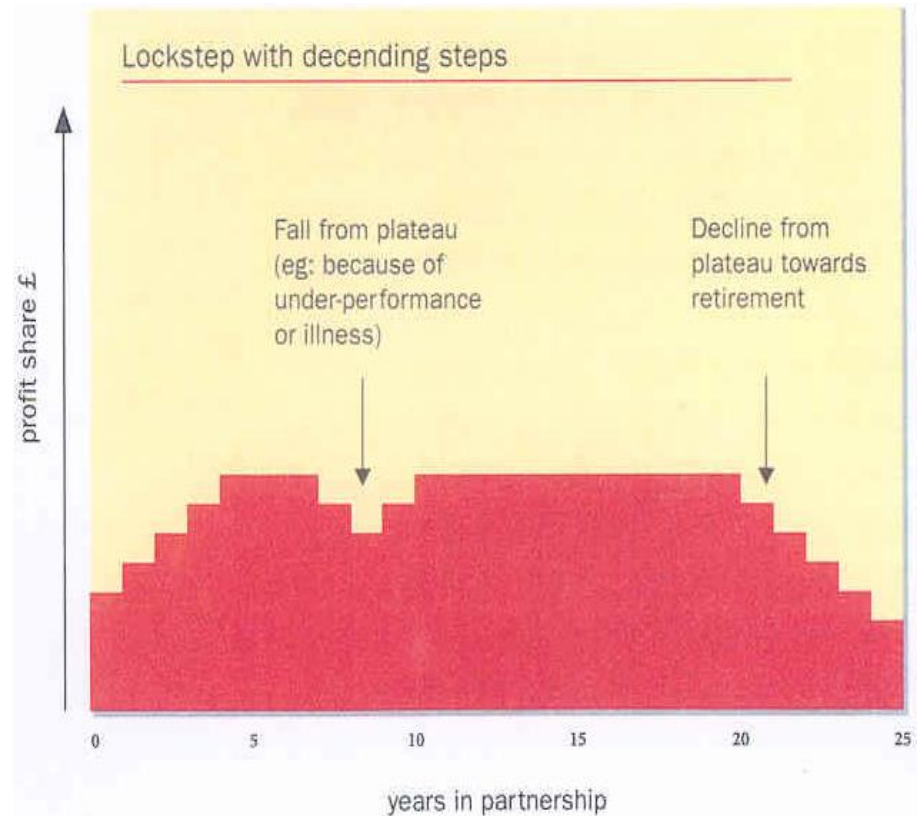


Do law firms ask their people what they want from their careers?

- Firm – wide surveys to uncover reasons for staff losses or disillusionment
- Exit interviews
- 360 degree feedback as part of a development and assessment process
- For longer term succession planning
- Confidential partner questionnaires

Older partners - planning is the key – for both a firm and partners

- Economic pressures to reduce equity
- Lack of future leaders
- Mandatory retirement ages falling
- Loss of talent
- Repayment of capital issues
- Pension issues



What should a plan for older partners aim to do?

- To make optimum use of all productive resources within a firm – because people are your only resource
- Firms need to **creatively** think how best to use what they have – examples?
 - Risk and compliance roles?
 - Mentoring younger people?
 - Other roles?
- To provide for a planned retirement to suit both parties

Older partners

As part of a plan towards retirement:

- Make them feel **valued**
- harness their skills and experience
- Match their reward to contribution
- Agree a planned handover of clients
- Agree financial retirement payments which the firm can afford to pay

What not to do....

“Don’t put your head in the sand”



Preparing for tomorrow – younger partners - does the firm have a future?

- What to put in the place of retiring partners?
- Focusing on younger partners highlights future issues
- Does the firm have the ‘people resources’ to achieve its future objectives / survive?
- If not, what are the possible options?

Younger partners

Law firms need to:

- Provide clear career paths
- Help them develop skills and experience
- Ease them into client relationships
- Build competitive profitability to recruit and retain the best

Small firms and sole practitioners – why do they need to plan ahead?

- Age / retirement issues
- Resource issues
- Professional indemnity / run-off cover
- To realise capital value?

Options?

- Continue practice by taking in a partner or partners
- Employee trust
- Merge / sell practice
- Close practice
- Keep going?
- Others?

1. Continue the practice by taking in a partner

- Choose the right partner!
- On what financial basis will they become a partner?
- Get the partnership agreement right
- Agree the financial basis for your ultimate retirement

NB – Plan ahead to get your practice into ‘good shape’

NB - Take good accounting, valuation, tax and legal advice

Who has done this / tried to do this / is thinking of doing this?

2. Sale / merger

What does a lawyer have to sell?

- Services / labour?
- Hard assets?
- **Goodwill?** (the difference between the net hard asset value and a total price)

What do you need to do so you have something to sell?

Need to create something of **value**:

- which someone else needs
- which they cannot provide (easily or at an economic cost) for themselves
- The value of which does not depend on your remaining in the business long term

Elements to creating something of value in a law firm?

- Need to create a *competitive business*
- Your relationship with that business needs to be organised
- Need to find a buyer
 - with whom there is a strategic fit
 - who needs what you have
- Ensure you receive your value - **take advice – valuation, accounting, tax and legal**

Practical issues arising on sale / merger?

- Professional indemnity insurance –
 - run off cover – cost?
 - successor practice
- Some PI issues?
 - buyer's preferred approach Vs seller's preferred approach
 - how to satisfy both?
 - the buyer's excess

NB – Take advice

More practical issues

- How to realise your WIP and Debtors?
- Know your buyer – due diligence
- Your future position / status / liabilities
- Get the sale / merger agreement '*right*'

NB – Take advice

A case study

A law firm

- 1 partner
- 3 other fee earners
- No lease obligations

The nature of the business?

A niche firm

- A growing sector – practice attracted work nationally
- Practice limited itself to narrow areas of work in that sector
- Broad range of existing and growing clients
- Owner had built a reputation in the sector
- Profitability hit by the recession

Did the owner have something to sell?

Did the owner have something to sell?

- Nature of the business?
- Owner's relationship with that business?
- His age?
- Potential buyers?
- Basis of valuation?

Outcome?

Develop your plan NOW!



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Questions and Conclusion

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