

## Episode 5: Summary



**Episode name:** Successful Law Firm Succession

**Guest(s):** Craig Osborne

### What topic does this episode consider?

Succession planning for lawyers. This episode looks at how law firms are valued, providing practical tips for law firm owners to maximise value in their firm.

### Why is this topic relevant?

4,000 lawyers in New South Wales are expected to retire in the next 10 years, meaning that there is a large number of lawyers who will soon have to consider their succession plan and how they will maximise value in their practise as well as their transition to retirement.

### What are the stats?

The Law Society of New South Wales issues information on the make-up of solicitors holding practising certificates. Of the 36,046 lawyers in NSW, around 29% are aged above 50 years old, and around half of this amount are older than 60.

In 2018 The Law Society of New South Wales commissioned a report from Urbis on the National Profile of Solicitors. That profile presents a demographic picture of the legal profession, as well as changes observed over time. That report found that 79% of private law firms are sole practitioners. With such a high percentage of smaller practices, succession is a key consideration for all lawyers, particularly those wanting to transition to retirement within the next decade. You can find a link to this report at the end of this summary.

### What are the main points?

- Law firms are valued on a multiple. A multiple approach involves taking a measurement, in this case revenue or EBITDA, and applying a multiple. For law firms the multiple can vary but Craig suggests 1 times multiple. This means that a law firm with annual revenue of \$5 million, would be valued at 1 times that amount, i.e. \$5 million. Multiples vary by industry and are subject to many different factors. By way of comparison, the financial sector tends to trade at high multiples anywhere from 3 to 12 times, whereas tech companies can have multiples exceeding 16.
- Succession for law firm owners ordinarily involves:
  - selling internally;
  - selling externally;
  - shutting down the business.
- Selling internally may not guarantee the highest sale price, but is likely to be favourable to clients as there is continuity and established trust and confidence. Selling internally can often be a challenge for sole practitioners and small law firm owners because of turnover and feeling unable to transition the practice to the right person.
- Selling externally requires the business owner to have had a strong reputation, particularly for small firms or sole practitioners.

- An acquirer will assess a target firm based on a balanced scorecard: financials, people, customers and processes.
- Law firm owners planning to retire should focus on developing the following areas in order to maximise and become a viable acquisition target:
  1. maximise sales;
  2. implement efficient practices;
  3. monitor accounts receivable;
  4. ability to scale;
  5. effective human resources; and
  6. taking advantage of technological innovations.
- By establishing a mutually beneficial succession plan well in advance, law firm owners can become comfortable over time with the idea of one day stepping down and having someone else run the business. This can help mitigate common feelings of uncertainty, unease and anxiousness when retiring.

### What are the practical takeaways?

- Planning for succession is the best way to prepare and maximise value on sale.
- It can be very difficult for people to let go and step away from being a business owner. For many people, being a business owner is strongly linked to their identity so it can be emotionally difficult to let go and hand the reins over to others, especially if still working within the business.
- Acquiring firms consider the mindset of the selling business owner and the steps that have taken to date to succession plan; it's a red flag when an owner wants a quick payout but does not want to invest time and effort in transitioning the practice to new owners.
- If you are planning to sell your business/retire within the next few years, you should create a plan now. A growth mindset will help business owners maximise value in their business, including being open to change, in particular organisational and technological changes to improve efficiencies.
- A business with longevity is marked by its system of open communication and the sharing of clients, information and skills between its lawyers. It's integral that business owners and senior lawyers allow more junior lawyers to build their practice and flourish; more junior lawyers need scope and support to build relationships with clients.
- Culture is key. Cultural artefacts can be visible at first glance, from the attitudes of employees, to plans for career progression for employees, to the vibe and feel of the office. You can tell a lot about a law firm from its culture.
- Beware of fee earner concentration, where one person generates the bulk of the revenue.

### Show notes

[Practising Solicitor Statistics as at 30 June 2020](#)

[2020 National Profile of Solicitors, Urbis](#)