CASE STUDY

MONNET & CASHOLA

WHERE'S THE BEEF?

SYNOPSIS

THE CLIENT

10 attorney law firm. All partners are 50+ years of age with no successors.

CHALLENGE

Established firm without structure, policy, or procedure for compensation, billing or growth of the firm.

SOLUTION

- Built billing and collection procedures, alongside new software, that elevated the firm's realization rates.
- Created processes for compensation that ran parallel to current decisions for one year; implemented in year 2.
- Developed ascension plan with documentation for associates to have path to ownership.

RESULT

The firm reached realization rates of 94% for billing and 90% for collection, after years of sub-80% for both categories. This provided more money for distribution through the bonus system, which we created to reward criteria that were culture-based. This new bonus process was mirrored in the non-equity owner category, created as a step in the ascension process. Within 2 years the first non-equity owner was in place, with designs on full ownership as the criteria is clear and path has been created.

MONNET & CASHOLA

CHALLENGE

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BACKGROUND

Monnet and Cashola is a 10 attorney firm that has a specific focus on one practice of law. The owners, Monnet, Cashola, Wentby, and Dervish, founded the firm nearly 10 years ago after leaving a few firms around town that had solid reputations, but not enough resources for their practice area. They have had successful years, but not always. They have no established policies nor procedures around billing or receipts, and base their compensation on cash flow at the end of each month. They had not received year-end bonuses since inception, although they had added 6 lawyers and respective support staff over the years.

The primary business originators, not surprisingly, are the four original owners. They have never added another partner, and now find themselves in an average age of 50+, with no successors in sight. The six associates range in tenure at the firm from 1 to 5 years, and range in legal experience from 1 to 6 years.

The firm engaged us to complete an administrative audit, reviewing practices and procedures to measure profitability. We collaborated with the firm's manager, who had no prior legal experience, to review existing procedures and processes.

SOLUTION

1) Created monthly billing processes including timesheet deadlines (and ensuing consequences for non-compliance) and prebill review deadlines. Within three months cash flow evened out, and a money market fund was established to store profits for year-end bonuses. Additionally, realization rates for billing and collection reached all-time highs – 94% for billing and 90% for collection.
2) Recommended transition from Timeslips/Quickbooks to one system that includes front and back office. Initial investment was recovered in time saved by administrative staff, plus reporting options no longer required to be exported to Excel and then created.

The firm re-engaged us a year later to discuss compensation strategies as they began making money and participating in very lengthy discussions about distribution of bonus. They were comfortable with the salary levels created, and saw their bonus pool as a way to even up contributions at the end of the year. They did not want a purely formulaic approach, which is in line with the industry direction. We approached this by first identifying the measurable areas for consideration, which were agreed as:

OBJECTIVE MEASURES

1) Origination billed
2) Origination collected
3) Personal Billed
4) Risk (based on % of ownership)
5) Managing Partner duties

SUBJECTIVE MEASURES

1) Management duties of the firm, including mentoring associates and staff
2) Training associates and staff
3) Business development efforts

We gathered this information and after many iterations developed this formula:

OBJECTIVE				
Orig. Billed	**Orig Collected**	**Personal Billed**	**Risk**	**MP**
10%	**40%**	**17%**	**4%**	**4%**

SUBJECTIVE		
Mgmt	**Train**	**BD**
8%	**9%**	**8%**

These percentages were discussed and adjusted to accommodate the values of the firm, including the future direction desired. We polished this formula off with the Henderson technique, which measures owner compensation against contribution to the firm as origination collected.

After a few years of using this formula, the owners recognized they needed a second tier of ownership to begin advancing their associates (retention) and preparing an exit plan for themselves. They had intended to cash out upon retirement based on the receivables of the firm, and recognized without future receivables there would be no payout available.

We first examined the values of the firm, utilizing them to create an ascension path to ownership for all associates. We implemented a non-equity tier of ownership which allowed for upward mobility without participating in a buy-in to full ownership. Basically, a tier which allowed both parties to "look-see" for a match.

This included:

1) A document that could be distributed alongside performance evaluations which outlined the specifics involved in advancing to the next tier;
2) A new bonus structure, which mirrors the equity level in criteria, and has a separate pool established by the proceeds of originations from the non-equity owners.

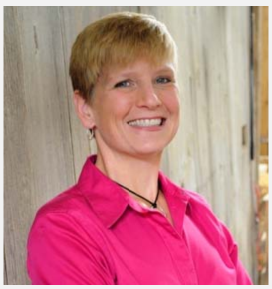
RESULT

The firm has appreciated the new structures and processes, albeit growing pains along the way. Adjusting to new policies around time entry and pre-bill review was challenging for some of the owners, and the benefits have been outstanding.

REFLECTION

What are you doing to develop a plan for growth in your firm? Is it memorialized in a way that is understandable by your future owners? In other words, do they know how to get where you are?

For more information and further reading on Succession Planning, visit our online library.



JUDY HISSONG, CLM

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Judy understands teams. And she knows how to help you maximize the potential of yours. For over two decades, Judy has applied her vast knowledge of team dynamics, emotional intelligence, work/life balance, leadership, finance, and legal management to help law firms improve their people, process, performance and, ultimately, profits.

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