

What Are Buyers of Small Legal Practices Looking For?



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Are you a principal of a small legal practice looking to sell in the next few years? If so, below are a number of key points to consider to ensure you maximise your practice's value when it comes time to sell.

Being able to understand what buyers are looking for, you can make your practice more attractive to those buyers and potentially achieve a quicker and more lucrative result.

All buyers of legal practices will generally want to know certain basic information about a legal practice such as:

- 1) Revenue and profitability for the past three years and also Year to Date (YTD)
- 2) Number files opened for the past three years and YTD
- 3) Split up of turnover between work types over that period
- 4) Staffing
- 5) Details of the lease
- 6) What is included in the sale e.g. plant and equipment
- 7) Why are you selling

Buyers naturally will prefer to see a history of increasing revenue and profitability. If there has been some volatility in Professional Fees in recent years, document this so that there is a plausible explanation.

While this may seem obvious, there are a number of other matters that aren't so obvious that could help you sell your practice and achieve a better price;

i) Working Capital Management

Currently buyers generally are coming from two distinct areas. You have first time buyers often moving out of the corporate sector and then you have other legal practices looking to expand.

One area of concern for both groups is the billing policy of the practice.

As you can imagine, either group may have limited capital, so they want to ensure that the billing practices are such that working capital is kept to a minimum. If these policies are suddenly changed when a new owner takes over, then there is a higher risk that clients may leave.

Examples of problem working capital policies are:

- 1) Not getting clients to pay all disbursements, leaving the practice to carry these
- 2) Leaving billing of matters till the file is closed, which means the practice may have to carry the Work in Progress for many months.

Buyers will still buy practices with poor working capital management however, how much they will pay could be a lot less as they need to tie up more working capital in the business.

By making preparations well before the sale you can demonstrate to a purchaser that you have a well managed practice.

- Institute policies so all clients pay for disbursements
- Progress bill clients if the matter is drawn out.
- Start recording time on all matters so you have an accurate value for work in progress (buyers want to know this figure)
- Tighten up debtor terms

ii) Marketing

While most practices do little in the way of marketing, one area that is particularly valued by buyers is evidence that the practice has developed strong relationships with local real estate agencies and developers. This is likely to ensure that the practice will continue to generate a steady flow of conveyancing referrals for a new owner.

It is never too late to start to build those relationships.

- Communicate with them regularly “ How can we help you”
- Regular “Lunch and Learn”

iii) The outgoing principal’s ongoing relationship with the practice

For purchasers, particularly first time purchasers, having the outgoing principal continue to have an ongoing involvement in the practice, is very attractive. Apart from the obvious one of allowing a seamless transition to the new owner, with less leakage of clients, the other things that are attractive to buyers with this arrangement are:

- 1) The purchaser can continue to make use of the vendors knowledge and experience
- 2) The vendor maybe able to provide a mentoring role to an inexperienced purchaser
- 3) The vendor maybe able to introduce new clients to the practice particularly if there is an incentive to do so.
- 4) The purchaser gets an experienced practitioner who is immediately profitable.

Walking away as soon as you can after the sale may limit the attractiveness of your practice to many purchasers. Think through your retirement plan and allow for the possibility of working for a couple of years post sale. If necessary, bring your practice to market sooner.

iv) Staffing

All purchasers will want to understand the skills and expertise of practice staff, of particular interest is their capacity to add more value to the practice. Issues such as ongoing training, existing skills, underutilised skills and development of specialities will be of particular interest.

At the very least make sure these opportunities are brought to the attention of the purchaser, rather than hope that they see it.

v) IT Systems

Buyers are looking for a practice ideally running the same or similar software, so there is little training of staff. More often this is the luck of the draw, they also are looking for well developed use of technology, with properly networked systems and staff having appropriate skills.

If you are planning to sell now it might be unwise to invest in a new computer system however, make sure that you are using the one you have the best you can.

So if you are considering selling your practice, call me for a preliminary and confidential chat about your plans, aspirations and goals.

I'll be delighted to provide you with a no risk or obligation **FREE MARKET APPRAISAL OF YOUR BUSINESS.**