



FAT STACKS:

How Much Does It Cost to Start a Law Firm?


BY JARED CORREIA

ONE REALLY GOOD IDEA EVERY DAY
attorneyat



Do You Have \$500?

Good. You're the proud owner of a new law firm! (Seriously, congratulations.) Thanks mostly to the spate of technology advances made possible by cloud services, it is cheaper to practice law than ever before, because lawyers can virtualize much of what they do. That means if you're willing to bootstrap the living heck out of your law practice, you can get in for next to nothing, including marketing expenses.



I'm going to assume you have a computer or tablet already, as well as a smartphone (maybe). You also likely have some physical area where you can work, like a home office, or your couch. What you probably don't have is a scanner. Fortunately, you can buy a Fujitsu ScanSnap that comes with a free copy of Nuance Power PDF.

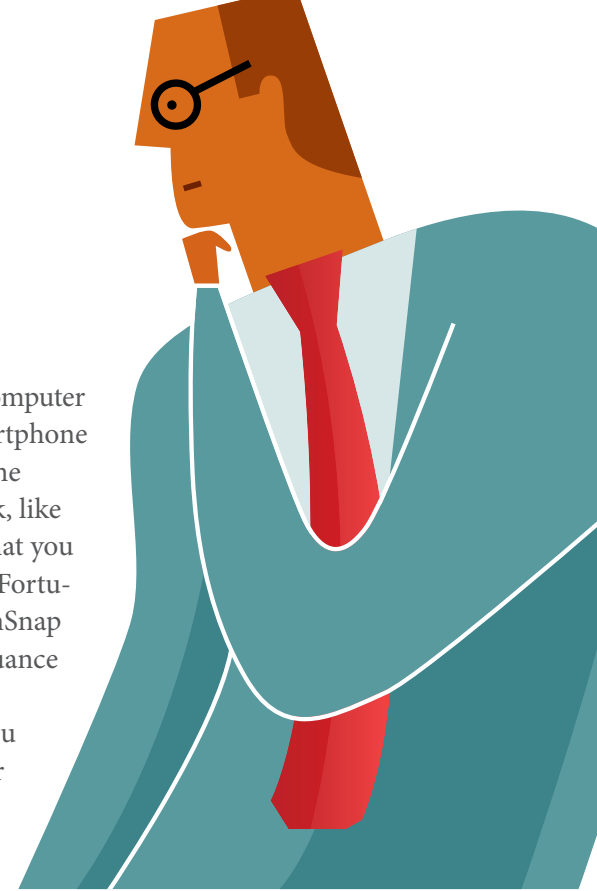
Now you're paperless, and you have the baseline requirement for running a modern law firm.

Of course, if that's the direction you're going to take, you'll be limited to free software, which there is a lot of, even if most of it has not insignificant drawbacks. It turns out vendors that don't charge for their services have less than robust products. Go figure.

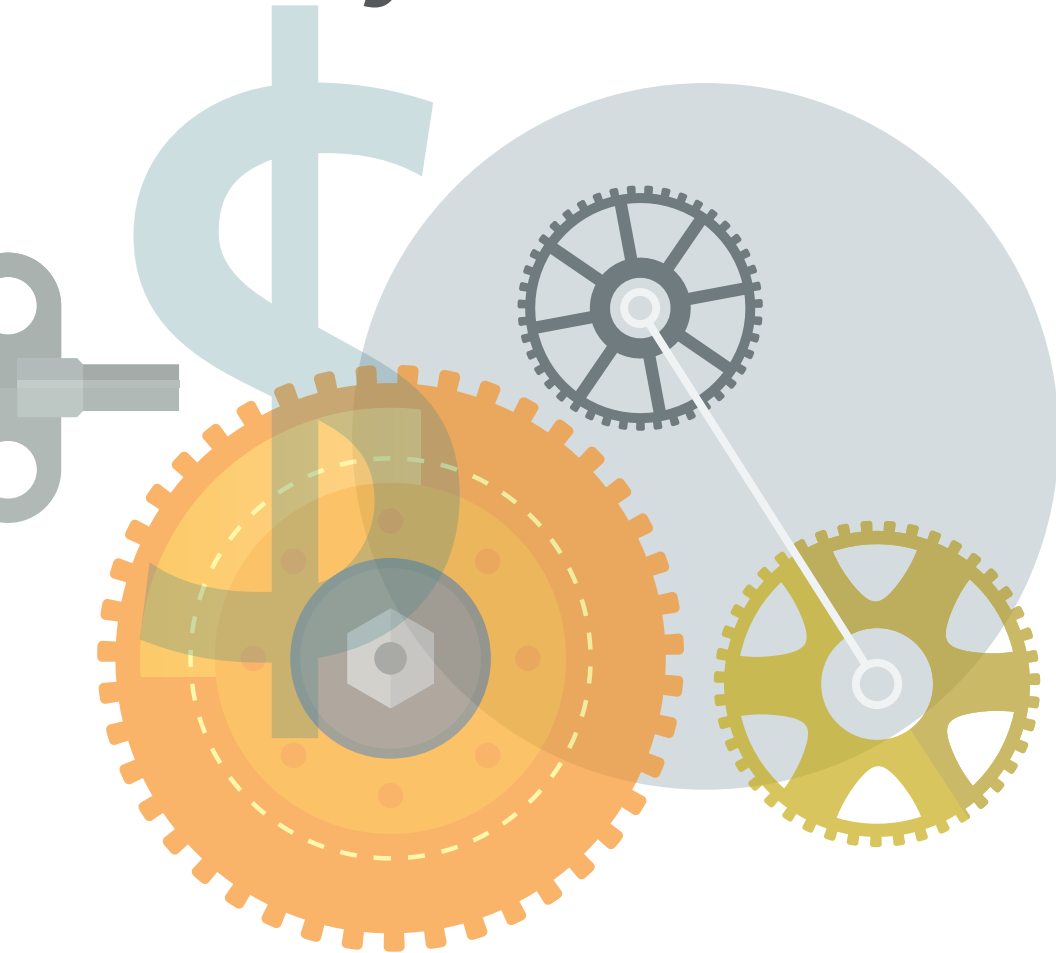
So, You Can Start a Law Firm for Less Than \$500

The question is whether you want to. Because, if you start a law firm for \$500, it ain't going to be a super professional one. You'll have an aol.com email account, you won't have a website and you might be sitting on a crate when clients show up at your house.

But let's be realistic: .00001 percent of lawyers are actually going to start a law firm for under \$500.



Phat Stacks: OK, This Is How Much It Really Costs to Start a Law Practice



Have you ever seen those images of different-size rocks stacked on top of each other online? Man, people love those. In most cases, rock stacks represent tranquility (... unless you're a seagull, in which case I suspect they make your life very, very difficult). Less calming is thinking about stacking expenses, on top of that basic start-up cost of \$500.

Was it intriguing to think that you might be able to start a law firm for \$500? Yes. Was it a pipe dream? Also, yes.

So, let's get down to brass tacks: What else will you want to pay for, and how much will it cost?

We can organize your start-up costs into these broad categories:

- **Technology**
- **Risk Allocation**
- **Marketing**
- **Administrative**

To get to an actual, realistic first-year cost figure for starting a firm, let's think back to those rocks. Each time you add an expense item based on the four categories above, you're adding another rock to your tower. By the time you're done, maybe you have a well-balanced rock-pile with a nice little seashell on top, like in "Moana." Or, maybe you're weeping next to a scattered pile of pebbles, and wondering where your next meal is coming from.

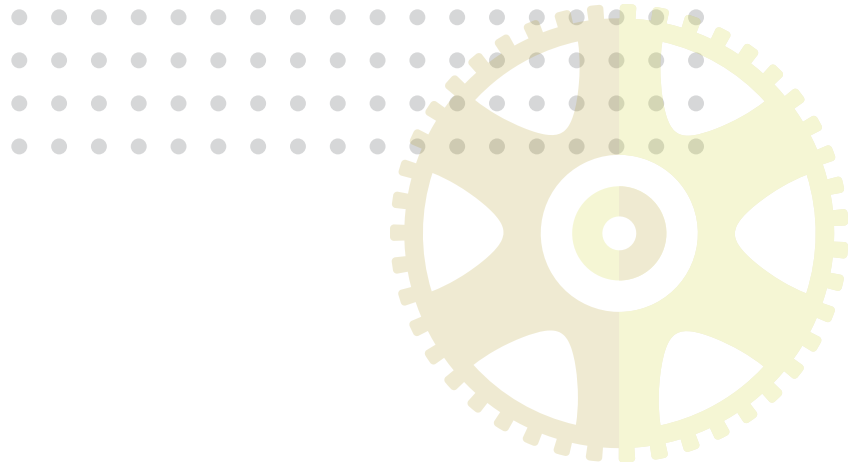
Stick to my suggestions for the 11 tiers of expenses described below, to keep your opening budget on the straight and narrow.

Adding It Up: Eleven Tiers of Start-up Expenses

Start with your existing computer and phone. Buy a scanner for around \$500. Then add to your start-up costs based on the following 11 categories, and based on your specific practice needs.

Review the tiers one by one. Make notes. Check my math. Draw pictures of mustachioed firetrucks over what I've written. All manner of shenanigans are allowed — nay, encouraged!

\$500+



FAT STACKS: 11 TIERS OF START-UP EXPENSES

1	Technology Upgrades 1: Hardware and Data
2	Risk Allocation 1: Malpractice Insurance
3	Marketing 1: Networking
4	Marketing 2: Social Media Profile & Networks
5	Marketing 3: Website and Content
6	Administrative 1: Physical Stuff
7	Technology Upgrades 2: Software
8	Administrative 2: Office Space
9	Risk Allocation 2: Choice of Entity
10	Administrative 3: Delegation
11	Administrative 4: Consultant

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Technology Upgrades 1: Hardware + Data

\$2,300

It's easy to think you already own a laptop and/or tablet and smartphone, and that you're happy with them. But maybe that's not the case; maybe you need a technology upgrade. If you do, you're going to need to buy new items, and potentially upgraded data plans over the civilian-use systems you currently have in place.

Let's say, at the uppermost level, that you need a new laptop (\$1,000 for a decent one), a new tablet (\$350 for the new iPad) and a new smartphone (if you pay over time, which most companies make you do, it's about \$30 per month for the phone). Now you're into new hardware for around \$1,700 for the first year. If you need to ramp up your internet speed or data plan, there's another \$600 per year.

(+ \$2,300 = NEW First-Year Cost for Your Law Firm: \$2,800)

\$2,800

Risk Allocation 1: Malpractice Insurance

+ \$1,200

Most attorneys are risk-averse, often by nature. So, it's not surprising that most new lawyers and lawyers starting firms are primarily concerned about avoiding ethics inquiries and malpractice claims. It is the rare lawyer, then, who would forgo a professional malpractice insurance policy for any amount of time. Since lawyer malpractice policies are claims-made policies, however, there is an argument to be made for waiting, at least until you sign your first client. Of course, in certain cases, your hand may be forced, such as when a vendor (like a title insurance company) requires you to maintain a certain level of coverage to receive their referrals.

The average malpractice policy for new lawyers is \$600 to \$1,200 annually. Rates for more experienced lawyers depend on multiple factors, including practice area. So, we'll go with the higher-end of the first-year estimate for our figure here.

(+ \$1,200 = NEW First-Year Cost for Your Law Firm: \$4,000)

\$4,000

Marketing 1: Networking

Before the early 1970s, when lawyers were formally allowed to advertise their services to the public, they relied on in-person networking to get direct business and to generate referrals. Many solo and small firms still rely on that tactic, almost exclusively, when creating business. Networking, and especially the word-of-mouth referrals it begets, has traditionally been

viewed as a cost-neutral event — but that view is inaccurate. While it doesn't cost anything to actually talk to someone, *putting yourself in a position* to actually talk to someone has a distinct expense attached. Think about what it takes to get in front of someone. If you're going to an event, you're not doing substantive work, you're paying for gas and parking, you're passing out business cards that you had to pay for, maybe you're paying for food and drinks. Those things add up.

Lawyers don't think marketing costs money because they don't track the costs of marketing; of course, pretending those costs aren't there don't actually make them disappear. Even if you stick close to home and try to enforce a marketing budget, you're still spending somewhere around \$5,000 per year networking when you include association memberships.

(+ \$5,000 = NEW First-Year Cost for Your Law Firm: \$9,000)

\$5,000

\$9,000

Marketing 2: Social Profiles + Social Networks

Establishing profiles on business listing sites (Avvo, Yelp) and social media sites (LinkedIn, Facebook) can be free if you focus exclusively on basic social media profiles and free listing services. However, there are a bunch of lawyer listing services, and many of them are not free. Even free profile services, like Avvo, allow users to purchase profile enhancements and advertising. The same goes for social media sites, which offer advertising options,

enhanced profiles and advanced analytics. The appeal of such options usually relates back to the strength of a lawyer’s personal brand — the stronger your own brand, the less likely it is that you need these enhancements. Of course, most startup law firms are only beginning to build a brand, making these options even more viable.

Certainly, you could budget \$1,000 annually toward focusing on enhancing your presence at listing and profile sites, even if your focus is exclusively on the free ones. And that limited budget could be potentially be eaten up by just one item, like Facebook advertising, especially if you create content aggressively in support of your spending. Plus, let me say that promoting yourself via listing and social sites requires a high-resolution headshot, which at a professional studio will run you around \$250. But, keep in mind that \$1,250 is a very conservative estimate here, and suggests that in your first year of operation at least, you are mostly relying on networking to produce your initial client base.

(+ \$1,250 = NEW First-Year Cost for Your Law Firm: \$10,250)

\$10,250

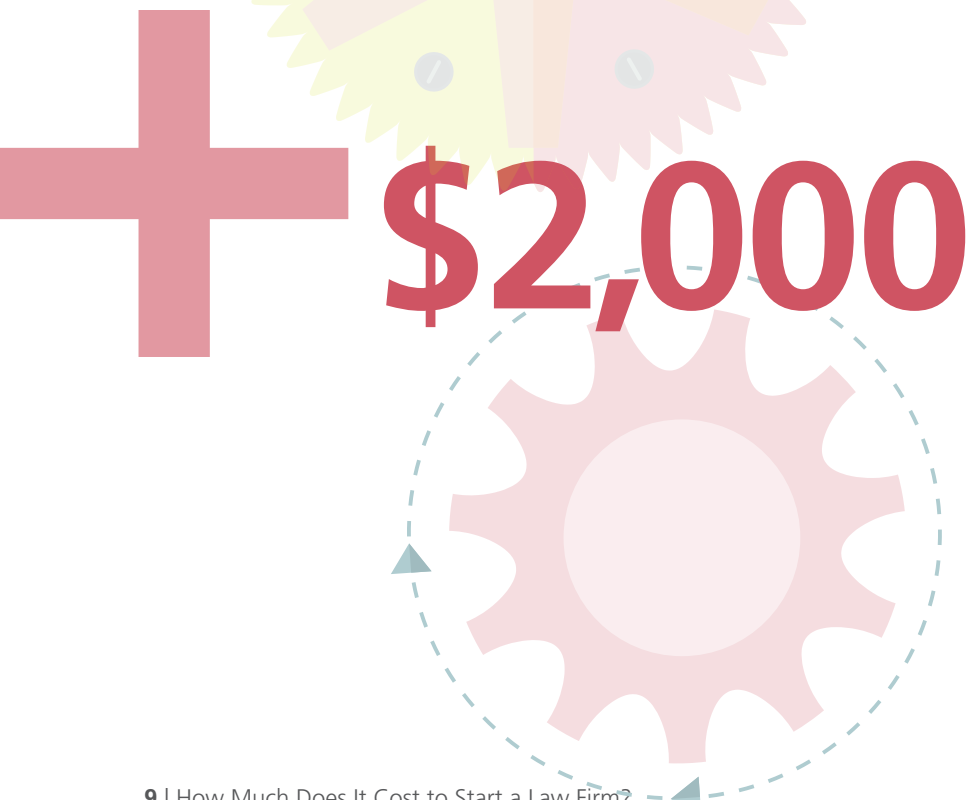
\$1,250

Marketing 3: Website + Content

You can make a run at developing a marketing profile without relying on a website, by banking instead on listing services and social media profiles. But a website can serve as the hub of your online marketing efforts and be a powerful content generation center. While you can potentially design a website on your own, using free tools like WordPress, that is not a no-cost endeavor. You still need to pay for your domain name and

hosting, and potentially for images (including a logo), a theme (there are free ones, too), a support package and more. If you're paying someone else to design a website for you (which, given the time it takes to do, is a reasonable solution) and paying for all the listed accoutrements and some others, you're looking at an outlay of around \$2,000, at the very low end.

The content you generate through your website is more likely an elbow grease situation, where you're personally putting in the work of creating and publishing content — especially when we're talking about also managing social profiles and streams. However, if you wanted to pay for content, there are ample opportunities to do so. You can buy e-newsletters, blog posts and social media posts. I suggest holding off on that until you establish your own voice (or get busy enough to justify farming out that sort of thing), and building on your existing content profile. Let's call that a year-three expense, then.



(+ \$2,000 = NEW First-Year Cost for Your Law Firm: \$12,250)

\$12,250

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Administrative 1: Physical Stuff

\$500

Remember that, for tax purposes, if you have a home office, you kind of need to actually have a home office, and that requires outfitting it with office-type things, like a chair and desk. You may be able to get those things for free or second-hand. But just having a desk and chair can get depressing. If I might suggest some additional items: a signed Larry Bird jersey, a sweet record collection and one of those fantastic banker's desk lamps. A low allocation figure for your home office setup is probably \$500.

(+ \$500 = NEW First-Year Cost for Your Law Firm: \$12,750)

\$12,750

Technology Upgrades 2: Software



\$1,500

Most of the solo and small firm lawyers I talk to are not willing to custom-build software, which is wise. Most aren't entirely comfortable with freeware options. Most want to pay for Microsoft Office for productivity. Most realize the value of law practice management software. Most will use QuickBooks for accounting, at the recommendation of their accountants. CRM software is gaining traction, but is still not used in the majority of solo and small law firms. There's a bunch of other software lawyers can access as well, a list that's continually growing as investment pours into the legal sector.

But at a baseline level, let's say you're buying into a productivity software-law practice management system-accounting software array. The total year one buy-in for that is probably around \$1,500.

(+ \$1,500 = **NEW First-Year Cost for Your Law Firm: \$14,250**)

\$14,250



Risk Allocation 2: Choice of Entity

While it is possible to operate under a fictitious (business) name by acquiring a d/b/a certificate, many lawyers and law firms opt for a formal entity structure, in order to access some limitations on personal liability, as well as tax advantages — though, lawyers do also get into formal business entities for marketing purposes, if their clients will value a formal entity structure. A number

of options are available in terms of business formation, and the decision is best made in conjunction with an accountant, who can advise on your personal tax situation. But, let's say you choose a single-member LLC, which is a popular option — you're in for a filing fee determined by your local secretary of state's office and potentially the cost of hiring an attorney to file for you.

So, let's assume that you, as a lawyer, draft your own fee agreements and file for your own business structures. You're still on the hook for the application and filing fees for your business entity, with recurring fees each year on top of that.

(+ \$500 = NEW First-Year Cost for Your Law Firm: \$14,750)

\$500

\$14,750

NOTE: Don't forget to pay your estimated taxes, on a quarterly basis, at both the federal and state level, which will include self-employment tax — otherwise, if you make enough in year one (and you won't be able to predict how much you'll make), you may be hit with an unpleasant bill from the IRS come tax time.

Administrative 2: Office Space

Maybe you don't want to work from home. Maybe you've decided you need a separate physical space to be productive. Maybe you can't work from home because your spouse is there ... with the kids. Maybe you feel that your clients will expect a traditional office space as a meeting place. Maybe you don't want a P.O. box, or want to have access to ancillary services and/or free beer.

A traditional lease in a major city is quite the to-do. That could run you upwards of \$5,000 per month. If you're a true startup, you're likely unwilling to front that cost, and will formulate mostly virtual means to meet with your clients — meaning you will only have a limited need for a physical office space. If that's the case, a virtual office may be a viable solution. Virtual office space is not rented in toto, but is shared with other users. You will have access to a traditional office space for a set number of hours per month, plus amenities like conference space and secretarial services — though those options may cost more. If you don't want the space, but just need a mailing address that is not your home address, that option is available as well, at the lowest cost-entry point.

If the proposition is to pay for a mailing address and some number of hours per month, that is not an inexpensive proposition; but it will surely be cheaper than the traditional office format.

Keep in mind, however, that if you end up sharing a virtual office space with referral sources, the ability to market yourself effectively in that place will generate business, and offset the cost of the space itself.

(+ \$2,500 = NEW First-Year Cost for Your Law Firm: \$17,250)

\$17,250

Administrative 3: Delegation

This is, more often than not, a consideration of more established firms; but hiring staff or vendors, through which you can farm out work, is really the only way to grow a law practice extensively. As a solo, there are only limited hours you can bill before you start to destroy your personal life. The conversion to becoming a manager, where you make hires or access contractors to profit bit by bit from their efforts, allows you to make money outside of your direct efforts.

Lawyers should practice “at the top of their law licenses,” getting paid for the creative work that they do, that holds the most value for clients. At a basic level, lawyers are not getting paid to pick up the phone and schedule meetings. If you can define the work that you do that is high-value and delegate the rest, you will make more money. The array of services you can contract out or virtualize can make the process highly cost-effective. There are virtual bookkeepers, secretaries, receptionists, paralegals and IT services. There are contract attorneys and law clerks. In some cases, an employment arrangement is preferred or required; but in many cases, it’s not absolutely necessary, which saves you paying traditional salary and benefits. The gig economy is real.

As a startup law firm, however, you can likely wait on staffing up. In that case, maybe you only use an accountant for your taxes and an IT person to help you get set up.

(+ \$2,500 = NEW First-Year Cost for Your Law Firm: \$19,750)

\$2,500



\$19,750



Administrative 4: Consultants

Certainly, I'm hopelessly biased in this case, because I operate as a consultant for law firms; but a number of lawyers find it valuable to take on consultants to help them manage various aspects of their business. It's the "E-Myth Revisited" thing, where you need to spend some time working on your business (developing strategy), not always in your business (managing

substantive work). Sometimes (and this is often a later-stage consideration), it helps to have someone assist you with the "on" part — and that is where consultants fit in.

There is no shortage of consultants offering services to law firms in categories like business management, technology and marketing. If there is an aspect of your business you want help with, there is somebody out there willing to charge you for it.

When you're starting out, you're probably not accessing these services yet. If your budget allows for it, though, you should, rather than spending an inordinate amount of time reinventing the wheel.

But, in terms of this discussion, I'll give you a pass for now.

Go Forth — and LAUNCH!

So, maybe I buried the lead a little bit here. Perhaps it's closer to \$20,000 for first-year costs when it comes to starting a law firm from scratch. But that number is significantly smaller than what it was five or 10 years ago, and that has mostly been due to the proliferation of legal-facing technology services and the continued uptick in social media and mobile phone usage by consumers. Now that you know what your wallet's in for, go forth — and launch!

POSTSCRIPT: I mention very few products and specific prices in this article, because that is a losing game. With the prevailing pace of technology, new products and pricing for traditional products are a moving target. My attempt, then, has been to list product types and associated costs drawn from my experience.

FAT STACKS: START-UP EXPENSES

	Bedrock: Existing computer, phone + scanner	\$500
1	+ Technology Upgrades 1: Hardware and Data	\$2,300
2	+ Risk Allocation 1: Malpractice Insurance	\$1,200
3	+ Marketing 1: Networking	\$5,000
4	+ Marketing 2: Social Media Profile & Networks	\$1,250
5	+ Marketing 3: Website and Content	\$2,000
6	+ Administrative 1: Physical Stuff	\$500
7	+ Technology Upgrades 2: Software	\$1,500
8	+ Administrative 2: Office Space	\$500
9	+ Risk Allocation 2: Choice of Entity	\$2,500
10	+ Administrative 3: Delegation	\$2,500
11	+ Administrative 4: Consultant	
	TOTAL ESTIMATED START-UP COST	\$19,750

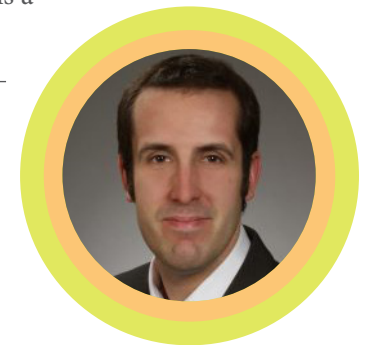
Eleven Tiers of Start-up Expenses. Start with your existing computer and phone. Buy a scanner for around \$500. Then add to your start-up costs based on these 11 categories, and based on your needs.

WORKSHEET: START-UP EXPENSES

	Existing computer, phone + scanner	\$500
1	+ Technology Upgrades 1: Hardware and Data	
2	+ Risk Allocation 1: Malpractice Insurance	
3	+ Marketing 1: Networking	
4	+ Marketing 2: Social Media Profile & Networks	
5	+ Marketing 3: Website and Content	
6	+ Administrative 1: Physical Stuff	
7	+ Technology Upgrades 2: Software	
8	+ Administrative 2: Office Space	
9	+ Risk Allocation 2: Choice of Entity	
10	+ Administrative 3: Delegation	
11	+ Administrative 4: Consultant	
	TOTAL ESTIMATED START-UP COST	\$

About the Author

Jared Correia is CEO of Red Cave Law Firm Consulting, which offers subscription-based law firm business management consulting and technology services for solo and small law firms. Red Cave also works with legal institutions and legal-facing corporations to develop programming and content. A former practicing attorney, Jared is a popular presenter and regular contributor to legal publications (including his “Managing” column for Attorney at Work). He is the author of the ABA book “Twitter in One Hour for Lawyers,” hosts the Legal Toolkit podcast, and teaches for Concord Law School, Suffolk University Law School and Solo Practice University. He loves James Taylor, but respects Ron Swanson.



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