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HOW A BUSINESS LAWYER CAN ADD VALUE TO YOUR SMALL BUSINESS

the Business Law Group

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Generally, there's a stigma attached to lawyers. When most hear the word "lawyer," they envision an expensive haircut, three-piece suit, and giant ornate office on top of a downtown building: these are the wolves in sheep's clothing waiting to pounce on unsuspecting business owners and devour them one hour at a time.

You may have had a legal question, thought you needed a contract reviewed, or even had a feeling in your gut that you should consult with a lawyer but avoided the interaction at all costs. Why would you want to deal with those people anyway? They're a bunch of overpaid narcissists, right?

What if I told you that some attorneys actually care about your business? What if I told you that there were some attorneys out there that actually want to help take your business to the same peak that you want to take it to? What if I told you that some attorneys actually get their haircuts at the same place you do?

You may have gone to an attorney when you started your business, or you may have engaged an attorney in regards to a dispute you had with a customer, or you may have even had an attorney write up a few documents for your business at some point.

The following are simple examples of the ways most small business owners interact with attorneys, if they engage one at all—they show up, order some services, the attorney provides those services, then the small business owner goes back out into the world.

The results of these types of interactions were probably mixed. You may have felt like you overpaid that attorney for what you got in return, or maybe you thought the outcome would be better. Heck, you may have even seen what the attorney did and thought you could have done most of it yourself. In any case, you did not see the value that the lawyer purportedly offered.

If you are like most small business owners, you think that 1) your business is different than everyone else's business and 2) lawyers are an expense you don't want to take on. First, while your business is likely unique, it's not that different from other businesses because it follows a lot of the same common principles as others. If you want your business to grow and prosper, you need to be investing in it. At the very least, if you're not investing in your business you're not growing like you could be.

Second, while the sticker shock of hiring an attorney might cause you to do a double-take, you might want to consider what value the right attorney can bring to your business before you decide to go it alone or find a cheaper alternative. Remember the old adage: *you get what you pay for.*

Here are three ways that a lawyer can bring value to a business:

VALUE ADDITION #1: YOUR BUSINESS'S WORTH

Everyone has to leave his or her business eventually. Either you're going to retire, encounter a health issue, have other priorities that take up too much time, get burned out, or some other reason arises. Being able to control that process is the difference between you participating in the greatest achievement of your lifetime or watching it all be torn apart.

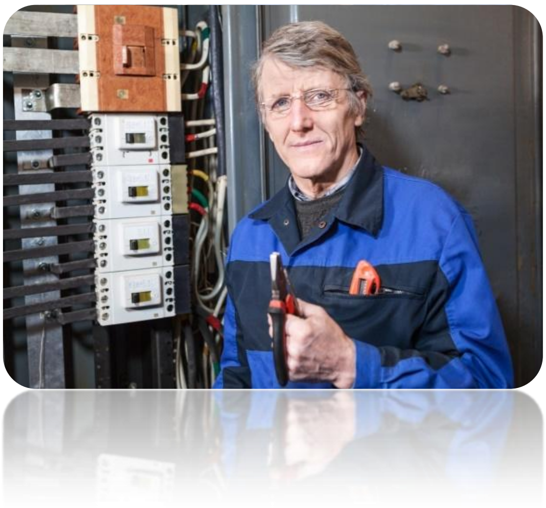
Electric Inc. was a business in West Michigan for forty years. They were well known in the area and were trusted for the quality of their work on large projects. The two owners had lived the comfortable lifestyle that the business offered.

The owners, despite both being heavily involved in the day-to-day operations of the business, were nearing retirement age. They sought out a business broker to test the possibility of selling Electric Inc., and the broker was not only able to get them to list the business, but also he lined up a buyer.

This might seem like a happy story for the owners, but here's where things take a turn: the owners of Electric Inc. had run the business with an easygoing attitude. There was no system in place for project management because jobs always got done eventually. They got most of their work (approximately 35%) from their three biggest customers, and everything was done via a gentleman's agreement because "a man is only as good as his word." They never implemented an inventory system, but they had a robust warehouse bursting with electrical equipment. They provided employees benefits, but there was no formal record-keeping or policies in place. These are all problem areas when it comes time to sell your business or transition owners when you want to retire.

However, Electric Inc. had legal counsel that had represented them since the company's formation—a local attorney that believed himself to be a savvy business lawyer. Electric Inc. was stunned to find out that this attorney was completely unprepared to help them. After the buyer had presented them with an asset purchase agreement, Electric Inc.'s attorney informed them that they should find other counsel.

So Electric Inc., a very nice small business that had been around for a long time, had decent cash flow, owned its building outright, and had a business attorney, yet they were searching for someone that could help them understand the transaction they were getting into and represent them at the closing.



Unfortunately for the owners of Electric Inc., they were too late in the process to make many significant changes. They were already past the age that they wanted to retire at, and they were committed to completing the transaction and hoping for the best. While they were able to find representation that was able to get the deal closed in about two weeks, it was not the best deal for the owners. Not only had the price been slashed, but also the buyer wanted a portion of the sale price on a promissory note, a portion paid out in an earn-out payment, and another portion allocated to the owners through a multi-year employment agreement. The worst part about the deal was that the buyer was unwilling to buy the property the business was situated in, opting instead to sign a two-year lease with an option to buy at the end.

The buyer chose to do this because there was just too much uncertainty: he did not know how smooth the transition would be, how much inventory was really usable, what would happen with the employees, and if Electric Inc.'s biggest customers would stay customers. So, the buyer required the owners to stick around and work for the business and 75% of the purchase price was put on the backburner and not guaranteed to be paid.

There are many simple things in this scenario that an experienced business attorney could have recommended that would have added tremendous value not only to Electric Inc. but also the owners. If Electric Inc. had standard agreements with all of its customers, an employee handbook, and an employment agreement, they may have put tens of thousands more dollars in their pockets at the time of close.

A close relationship with a qualified business attorney could have provided the advice that they remove themselves from the operations of the business and establish a management team that could run the business for them. Also, the owners could have gotten a better deal if they had received advice on devising systems for project management, creating inventory records, and reducing their reliance on just a few customers.

Waiting for the right time to engage an attorney is dangerous. The owners of Electric Inc. were burned out and ready to be done, so they did not have the option to take the time to improve the company. Health issues, family crises, market conditions, and so many other outside factors may force you to sell or transition out of your business. You might never find the "right time" to start asking a qualified attorney if your business is ready for that.

There are many common perceptions when it comes to attorneys, the first being that they are all the same and are all experts. Many people automatically believe that if an attorney says they are a business lawyer, then they can handle any business matter that comes their way. While there are many attorneys that meet this qualification, just like with any other profession, not all attorneys are created equal.

This perception of all attorneys being of the same caliber is what leads to the second common perception: "because all attorneys are the same, their services are a commodity." Meaning that if one attorney is going to charge $300 per hour, you can get the same service from another attorney for $150 per hour. Some even take this a step further and find a document off Google for $5 and think it's the same thing they would get from a business lawyer.

Both of these perceptions are false, though. Look at our above example. This was a real-life situation (with the names changed for obvious reasons). Electric Inc. was not a business that chose to forego hiring an attorney because they saw it as too expensive. They had counsel they could call on for years. I'm sure their attorney did a bang-up job when he was called upon, that is until he was presented with what was the most important transaction in Electric Inc.'s lifetime. He at least had the wherewithal to admit his shortcomings at the time. That did not help Electric Inc. get a better deal.

What if I told you that Electric Inc. sold for $1,000,000 even with all its warts? How much would you be willing to pay to avoid having to wait years for $750,000? How much would you be willing to pay to see that $1,000,000 become $1,500,000 or more? That is real tangible value that a qualified business attorney can bring, but the value provided can even go beyond that.

VALUE ADDITION #2: AVOIDING INTERNAL DISPUTES

Partnership disputes are not uncommon. You may own your business with a friend, family member, or someone that you have worked with well together for years now. This does not make you immune. In fact, these disputes can not only tear lifelong relationships apart but also can kill a business.

Software Co. was a growing business that had three owners who each owned a third of the company. Everything was going great for Software Co., and they were growing fast. By year seven, revenue had ballooned to over $3,500,000. Around this this time, it became apparent that the business had outgrown one of the owners.

Jim had been an integral part of Software Co. when it was first getting underway. While Jim did not have a lot of experience in running a business, he was a good programmer who was able to develop Software Co.'s original software. As the products that Software Co. put out became more and more complex, Jim was less and less effective as an employee of the business; also, his annual salary became a burden on the business. For what Jim was receiving in salary, Software Co. could hire two additional programmers that could be three times as effective as Jim. It was time for a change.

Of course, Software Co.'s real problem wasn't that Jim's salary had become a burden. Rather Software Co.'s corporate documents were so incomplete that when the inevitable tension among the owners boiled over, there was a lack of guidance on how to settle the dispute.

Software Co. did not have a buy-sell agreement, and the applicable provisions in the operating agreement were vague and did not provide a definitive solution. Around this time, Software Co. retained the services of a business attorney to help untangle this mess. Essentially the situation became a business divorce—but what could have been orderly under a contingency plan instead was an emotionally charged situation.

After what seemed like an eternity and way too many defensive conversations, a resolution was reached. Software Co. would buy out Jim's ownership interest. Jim begrudgingly accepted the terms even though be believed he should have received more money and better payment terms. Software Co. accepted the terms even though the other two owners felt that Jim was overpaid for his share of the business; additionally, Software Co. had to take outside financing to make the deal work, which was burdensome on the business. No one was happy with the situation, and Software Co.'s business took a significant hit.

These events are not uncommon in a business. Deaths, disputes, disabilities, and divorces are always potential threats. Most businesses, even great businesses, are not in a position to buyout an owner or an owner's estate, which leaves a whole host of unappealing options. Do you want your partner's ex-wife to own a share of your business? Do you want to have to go in search of someone who can pay a deceased owner's estate for his share of the business? Do you want to be paying a disabled owner half of the profits of your business even though he contributes nothing?

Those are the options you will be facing unless you have a plan. Even then, just having a plan is not enough because the best laid plans can fall apart without the right tools in place. Making sure the business has the right mechanisms and tools in place can mean the difference between your plan coming together and you ending up stuck with the same tough choices you would have had to make without a plan. Also, as your business changes, your plan has to change with it. That means a plan needs to be revisited with enough regularity to know that it still works for your business.

What value do you place on knowing that if a terrible event strikes one of the owners of your business, that event won't shut down the business and will have as little effect as possible on the business's future? Do you know how to develop that plan? Do you know how to keep that plan up to date through the changing conditions of your business?

VALUE ADDITION #3: NEED MORE TIME

Time is the most valuable asset that we have. You can make more money, and you can buy more land, gold, and oil, but you can never create more hours in the day or get back time that has been lost. You, as a business owner, are very likely well aware of how precious your time is—so, don't waste another minute on tasks that don't drive your business forward.

Jay was the owner of a trucking company. He had ten full-time employees in his office, twenty full-time drivers, and a host of independent contractors he would call on when his business got busy. It was not uncommon for Jay's company to have over twenty independent contractors supplementing his employment force.

One Jay's employees came into his office one day. She wanted to discuss her maternity leave. Jay had known that this employee was pregnant; he might have been a guy, but he was not that unobservant. Even though he had realized this fact, he had been so busy with other aspects of the business that he never made the connection that this employee would likely need time off. Even more, he did not know how much time he was required to give her off.

Following the meeting, Jay went to the great legal consultant known as Google. He spent hour after hour scouring legal articles, reading statutes, and trying to navigate government websites. Jay not only was struggling to gather and comprehend the rules and regulations that dealt with an expecting mother, but also he could not figure out if his contractors put him over certain minimum requirements that would allow other regulations to kick in.

When all was said and done, Jay had finally gotten to a point where he was frustrated with the research but was able to come to a conclusion with which he was comfortable. The next time Jay saw his attorney, he proudly boasted that he was able to find the answer to his dilemma and half-jokingly stated, “And I didn’t even have to spend three years in law school to get that information.”

While Jay did not have to spend three years in law school to get an answer to his legal question, and his company did not have to pay its attorney to get the answer, Jay failed to see the true cost of his research. Jay had spent a total of six hours trying to find all the information he needed. His business attorney very likely had some basic knowledge of the situation, or knew the answer right off the top of his head. Jay could have paid his attorney for an hour of billable time and instead spent those six hours on other tasks that made his business money. What would you pay to get an extra six hours added to your week?

An attorney can add tremendous value as a member of your team because of the experience and knowledge they bring to topics that are completely novel to you and your business. The time it takes you to find an answer to a question that an attorney either already knows or can find an answer to in a short amount of time is time wasted.

To put this into dollar and cents, if you are responsible for bringing in $100 per hour to your business, how much would you be willing to pay an attorney for information that you know will be accurate over that which you find in the course of six hours? Now, I’m sure you’re more valuable to your business than $100 per hour, but this exercise shows that paying an attorney $200 is a bargain compared to the money you can make by putting that time to better use.

You also need to consider the accuracy of the answers you discover. With there being federal, state, and local laws and regulations that can have an effect on your business, information on the internet might not be specific to your jurisdiction. It might not be accurate at all, or might be out of date because new laws and policies have replaced it. In some situations, there might be more than one answer to your problem.

This principle is exacerbated when it comes to dealing with business disputes. You can spend days and weeks trying to resolve a potential dispute only to have emotions constantly limiting your ability to reach a resolution. Only when the dispute becomes litigious are you forced to retain an attorney and a resolution is then reached. Even if you are able resolve the dispute yourself, you have wasted hours and hours of your valuable time to get to that point.

When you have a trusted advisor in your corner, he can remove the emotions of the situation, efficiently move toward a resolution, and allow you to focus on more important tasks. The time that saves you is invaluable.

Conclusion

I'm not going to end this report with a message that you need to contact a business attorney today or else your business is doomed. A lawyer might not be appropriate for where you are, but I do know for sure that an experienced business lawyer is a crucial part of getting you where you want to go. Look at business moguls like Warren Buffett and Donald Trump—they have had the same attorneys by their sides for decades. In fact, these attorneys are often referred to as the "number 2s" to these giants of business.

Then you look at businesses like Meijer, Amway, and Steelcase all of which have attorneys in their executive ranks. These big businesses do not retain general counsel because they think it adds grandeur to them; instead, it's strategic because those individuals add value to those businesses.

Hey, I get it. You're not Warren Buffett and your business is not Meijer. You can't afford to have an attorney show up at your office every day. Your business very likely does not have enough work to occupy that attorney, and so it would be a huge burden to try and carry that kind of salary with that much work to do.

But what about meeting with someone once a week? Twice a month? Once a month? What about having that go-to counsel be available when anything comes up? What about someone to look over your shoulder and advise you on how to move in the right direction toward your big vision? What about a trusted advisor that has experience working with many other businesses that face many of the same situations you're in? Can you afford that? Can that add at least some value to your business?

I understand what it is to be a small business owner. I know that when you look around and see other small business owners. You see they are not leveraging an attorney like this. They seem to be doing ok, right? But we have all seen the clichéd stats about the number of small businesses that fail each year. The stats for the number of businesses that are able to successfully transition from one owner to another are just about as bad. Maybe, all the other small businesses you are looking at are not doing it the right way. Maybe, the business moguls and big business got where they are because did it different than most small businesses.

If there's one thing that you should take away from this report, it's this: break through the perception that every attorney is a leach looking to pick your pocket of resources you need. Find an attorney who is qualified to meet the needs of your business and start a relationship with them. Be honest with that attorney about what you are looking for, what your goals are for your business, and what your business can afford. The attorney will be a trusted advisor to your business for years to come, and there's no reason to start that relationship off with poor communication on what you both expect to happen.

If you follow this advice, you and your business will develop an asset that cannot hold a dollar value. That relationship will grow and you will see tremendous results.

Thank you again for taking the time to read this report. We are a very proud small business, and we are dedicated to supporting others like us, which means providing you with the tools and information to make good solid business decisions. Good luck to you.

We wish you great success!

Andrew Longcore

P.S. If you found this report useful but still would like some more help, please feel free to send me an email at alongcore@businesslawgr.com or call our firm at (616) 528-0007. I would love to hear what you have going on and where you see your business in the future.

P.P.S. If you would like our FREE report on "How to Hire an Advisor for Your Small Business," please send an email to alongcore@businesslawgr.com with the subject line "How to Hire an Advisor" and we will get that report right over to you.

P.P.P.S. If you have any specific questions regarding your business, send them to alongcore@businesslawgr.com. Be sure to put "Re: Lawyer Value Report" in the subject line and I will personally respond to you within forty-eight hours. And that's forty-eight hours, not forty-eight business hours because businesses don't get weekends off!