Buy-In?

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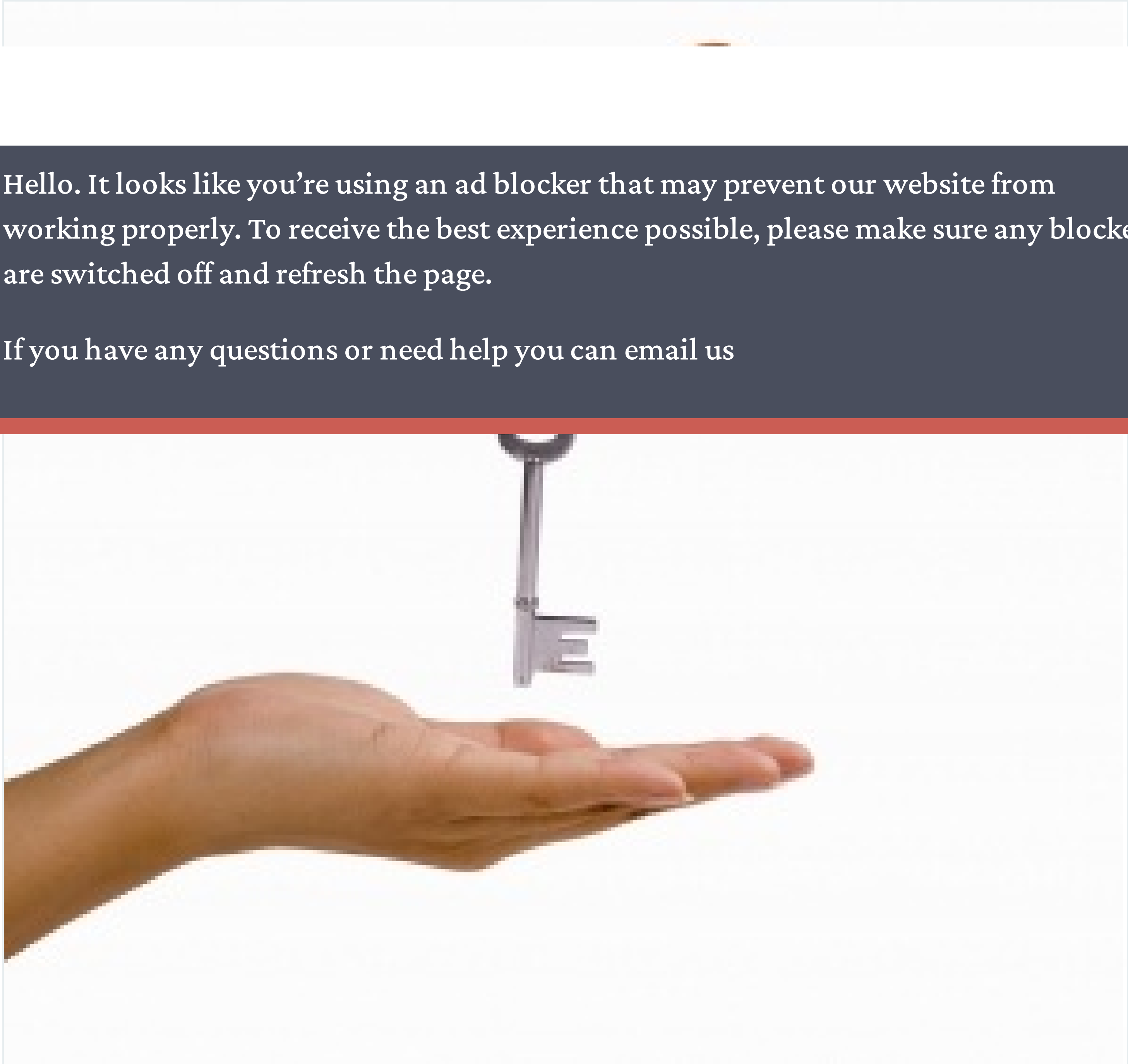

Question from a MP: "Our approach for determining the buy-in for a new partner is to multiply a projected ownership percentage of 5-10% times the firm's annual billings and discount the number by 20% for the person's 'sweat equity.'

"We discussed the buy-in matter with our next partner. He has brought in $30,000 of new business, for which he received a 15% bonus annually for three years, as part of the firm's incentive program for staff to bring in business.

"The manager wants a reduction in his buy-in by the $30,000 of billings he originated. We feel that if someone receives a bonus for originating business, which he did on company time and with the help of the firm's marketing activities, the buy-in should not be reduced by the $30,000. How would you advise us?"

OUR RESPONSE: Determining the buy-in by multiplying the firm's annual

downpayment ($10-25K).

The key is whether or not the manager signed a non-solicitation agreement. If so, then the clients are clearly owned by the firm. Bringing in clients is seen as part of the job of the manager (for which he receives a bonus) and a qualification to make partner. If the manager did not sign a non-solicitation agreement, and he wants to leave the firm and take clients, then he essentially owns the clients today.

Perhaps the biggest concern is: Do you want to let this issue drive a wedge between the firm and the partner candidate?

If this person is a star who has been a model employee, you may not wish to risk a serious argument with him. On the other hand, a staff person raising questions about the ownership of clients may be an indicator of problems down the road. I once interviewed a manager who was ready to be a partner. During our meeting he told me he would never sign a non-solicitation agreement because, in his words, "I might want to leave the firm some day and if I do, I want to take as many clients as I can, even if I didn't originate them." Needless to say, the partner candidate was terminated on the spot.

On one hand, if you determine the buy-in based on the firm's annual billings, and there is no non-compete with the staff person, he makes a good case that his buy-in should be reduced by his origination. Neither you nor I are happy about handling it this way, but there is an element of fairness in it that is hard to deny.

On the other hand, if you change the buy-in practices to those that I suggest, and he agrees to sign the non-solicitation agreement that is (hopefully) in your partner agreement, then your problem is solved.

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