KM/JD
Consulting LLC

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Law Firm Profitability Cases 350 Lawyers

Base Case - Hourly billing

	Average annual billable hours	Average annual non-billable admin hours	Billing rate	# in firm
Partners	1,500	200	$600	100
Associates	2,000	50	$300	250

Annual expenses = $144,000,000

Average realized rate = total annual billings ÷ # hrs billed

Total billings = (1,500*$600*100) + (2,000*$300*250) =	$240,000,000
# hrs billed = (1,500*100) + (2,000*250) =	650,000
ARR =	$369

Leverage = # lawyers ÷ # partners

Leverage = (250 + 100) ÷ 100 = 3.50

Margin = (total annual billings - expenses) ÷ total annual billings

Margin = ($240,000,000 - $144,000,000) ÷ $240,000,000 = 40%

Utilization = total annual hours billed ÷ # lawyers

Utilization = (1,500*100 + 2,000*250) ÷ (100+250) = 1,857

Profit Per Partner = ARR * Leverage * Margin * Utilization = $960,000

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Example #1 - Partners save 1 hr/week of non-billable time on pitches and fill it with billable work.

Additional annual partner billable hours per partner = 50
No increase in total annual expenses.

	Average annual billable hours	Average annual non-billable admin hours	Billing rate	# in firm
Partners	1,550	150	$600	100
Associates	2,000	50	$300	250

Annual expenses = $144,000,000

Average realized rate = total annual billings ÷ # hrs billed

Total billings = (1,550*$600*100) + (2,000*$300*250) = $243,000,000
hrs billed = (1,550*100) + (2,000*250) = 655,000
ARR = $371

Leverage = # lawyers ÷ # partners

Leverage = (250 + 100) ÷ 100 = 3.50

Margin = (total annual billings - expenses) ÷ total annual billings

Margin = ($243,000,000 - $144,000,000) ÷ $243,000,000 = 41%

Utilization = total annual hours billed ÷ # lawyers

Utilization = (1,550*100 + 2,000*250) ÷ (100+250) = 1,871

Profit Per Partner = ARR * Leverage * Margin * Utilization = $990,000

Result: Profits per partner improve by $30,000 (3%), or a total of $3,000,000 per year.

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Example #2 - Associates take on more senior work through training & model forms, with no reduction in quality.

Half the partners shift this many hours/week (%) of billable time to training & forms: 1.0 (1.7%)
All the associates shift this many hours/week (%) of billable time to attending training: 0.5 (1.3%)
As a result, additional associates take on this percentage of partner billable time, at the rate of 1.5 associate hours per partner hour assumed and with no added partner hours for supervision: 10%
Partners devote their spare billable time (difference of above items) to new work, using additional associates at the same leverage.
Increase in number of associates, to handle former partner work = 9.4, and new work = 24.3.
Expenses increase at 70% of per associate rate to reflect new associate salaries and overhead.

	Average annual billable hours	**Average annual non-billable admin hours**	**Billing rate**	**# in firm**
Partners	1,475	225	$600	100
Associates	1,975	75	$300	291

Annual expenses = $160,531,200

Average realized rate = total annual billings ÷ # hrs billed

		Billings for old work:
Total billings = (1,475*$600*100) + (1,975*$300*291) =	$260,917,500	$234,679,688
# hrs billed = (1,475*100) + (1,975*291) =	722,225	
ARR =	$361	

Leverage = # lawyers ÷ # partners
Leverage = (291 + 100) ÷ 100 = 3.91

Margin = (total annual billings - expenses) ÷ total annual billings
Margin = ($260,917,500 - $160,531,200) ÷ $260,917,500 = 38%

Utilization = total annual hours billed ÷ # lawyers
Utilization = (1,475*100 + 1,975*291) ÷ (100+291) = 1,847

Profit Per Partner = ARR * Leverage * Margin * Utilization = $1,003,863

Result: Profits per partner improve by $43,863 (4.6%), or a total of $4,386,300 per year.
Note that ARR and margin decline slightly.
Billings to clients for old work actually decline 2.2%.

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Example #3 - Reduce soft and hard write-offs

5% of partner hours and 10% of associate hours are written off before or after the bill is sent, due to inefficiency or client fee sensitivities.
Through practice improvements, the lawyers become efficient enough that matters are completed in fewer hours.
As a result, written off hours are reduced 50%, with those saved hours being billed and collected on other new work.
For simplicity, the model treats all write-offs as soft, with 100% of billings being collected.

	Average annual billable hours	**Average annual non-billable admin hours**	**Billing rate**	**# in firm**
Partners	1,539	200	$600	100
Associates	2,111	50	$300	250

Annual expenses = $144,000,000

Average realized rate = total annual billings ÷ # hrs billed

Total billings = (1,539*$600*100) + (2,111*$300*250) = $250,701,754
hrs billed = (1,539*100) + (2,111*250) = 681,725
ARR = $368

Leverage = # lawyers ÷ # partners

Leverage = (250 + 100) ÷ 100 = 3.50

Margin = (total annual billings - expenses) ÷ total annual billings

Margin = ($250,701,754 - $144,000,000) ÷ $250,701,754 = 43%

Utilization = total annual hours billed ÷ # lawyers

Utilization = (1,539*100 + 2,111*250) ÷ (100+250) = 1,948

Profit Per Partner = ARR * Leverage * Margin * Utilization = $1,067,018

Result: Profits per partner improve by $107,018 (11%), or a total of $10,701,754 per year.

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Alternate Base Case - Same as base case, except fixed fee arrangements cover 10% of billable fees.

Fixed fee matters have the same profitabillty and same allocation of partner and associate time as matters billed hourly.
Fixed fee matters are of a special type, different than the rest of the firm's work.

Hourly work:

	Average annual billable hours	Average annual non-billable admin hours	Billing rate	# in firm
Partners	1,350	200	$600	100
Associates	1,800	50	$300	250

Annual expenses for hourly fee work (90% of total) = $129,600,000

Average realized rate = total annual billings ÷ # hrs billed

Total billings = (1,350*$600*100) + (1,800*$300*250) = $216,000,000
hrs billed = (1,350*100) + (1,800*250) = 585,000
ARR = $369

Leverage = # lawyers ÷ # partners

Leverage = (250 + 100) ÷ 100 = 3.50

Margin = (total annual billings - expenses) ÷ total annual billings

Margin = ($216,000,000 - $129,600,000) ÷ $216,000,000 = 40%

Utilization = total annual hours billed ÷ # lawyers

Utilization = (1,350*100 + 1,800*250) ÷ (100+250) = 1,671

Profit Per Partner for Hourly Work = ARR * Leverage * Margin * Utilization = $864,000

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Alternate Base Case (cont'd)
Fixed Fee Work:

	Average annual billable hours	# in firm
Partners	150	100
Associates	200	250

Annual expenses for fixed fee work (10% of total) = $14,400,000

Total annual fixed fee billings = $24,000,000

ARR = $369

Margin = 40%

Profit Per Partner for Fixed Fee Work = Fixed fee billings * margin ÷ # partners = $96,000

Firm Total Profit Per Partner = $960,000
Total annual expenses = $144,000,000

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Example #4 - Fixed fee arrangements in Alternate Base Case are made more efficient.

Through practice improvements, lawyer time to complete fixed fee work is reduced by 10%
Lawyers fill their new time with additional fixed fee work of same type, yielding the same fee/hour (ARR).
Thus, the ARR of the old work is 90% of the ARR for the new work.
Fees equal ARR times total hours.
Efficiency of the firm's hourly work remains unchanged.

Fixed Fee Work:

	Average annual billable hours	**# in firm**
Partners	150	100
Associates	200	250

Annual expenses for fixed fee work = $14,400,000

Total annual fixed fee billings = $26,666,667

ARR = $410

Margin = 46%

Profit Per Partner for Fixed Fee Work = Fixed fee billings * margin ÷ # partners = $122,667

Firm Total Profit Per Partner = $986,667
Total annual expenses = $144,000,000

Result: Profits per partner improve by $26,667 (3%), or a total of $2,666,667 per year.
Profits per partner for fixed fee work improve by 28%.