



Benchmark Report & Analysis

Legal Sample Company - 2016

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Income and Profit

Profit and Loss	4
Profitability	5
Fees Controlled	5

Practice Staffing

Leverage	7
Employed Authors per equity principal	7
Fee Earner Utilisation	8
Staff wages and allowances	8
Support Levels	9

Rates and Return

Quoted Hourly Rates	11
Estimated Cost of Production per Hour	11
Average Work Done per Salary \$	11
Average fees billed per fee earner	12
Realisation at Standard Hours	13

Productivity

Average Effective Chargeable Hours per Annum	15
Average Effective Chargeable Hours per Day (44std working weeks)	15

Cash Flow

Cash Flow	17
-----------	----

Personnel Scorecard

Personnel Scorecard	19
1 - Equity Principals	19
2 - Non Equity Principals	19
3 - Associates	19
4 - Employed Solicitors	19
5 - Paralegals	19

Scenario Modeller

Original Data	21
---------------	----



1

Income and Profit

Profit and Loss

Profitability

Fees Controlled



In its broadest sense, financial success in the law firm is to pay all expenses (staff salaries and non-salary overheads) and manage both the income stream and the overheads.

Profit and Loss

Many law firm overheads are fixed, that is to say they do not vary with the level of work. A cost reduction strategy is to increase gross fees, relative to overheads, as a percentage of your total practice income.

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Your organisation Turnover: 4.0 to 4.99mil Turnover: All Net Profit: Low

TOTAL PRACTICE INCOME
Staff Salaries and Bonuses
Staff Overheads
Staff Training and CLE / CPD
Accounting fees
External Advisors
Interest and Finance Costs
Communication Costs
Equipment
Occupancy
Marketing & PD
Advertising
Practice Certificates + PI
General, Life + Income Insurance
Library
Miscellaneous
TOTAL OVERHEADS
TOTAL NONSALARY OVERHEADS
PROFIT MARGIN (BPS)

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For most firms, and depending on firm structure, this measure your firm has above average profit margin. If you work at contemporary rates your profit margin margins are happy and productive in their respective well trained staff, and quality premises.



Profitability

Law firm profitability is measured in terms of Net amount of profit (before principal's salaries) is divided

PROFIT PER EQUITY PRINCIPAL (BPS)

Profit per Full Parity Share

In terms of net profit per principal your firm is doing well. Appropriate pricing, effective cash flow management, and efficient operations can all improve profit. Improving all of them increases profitability.

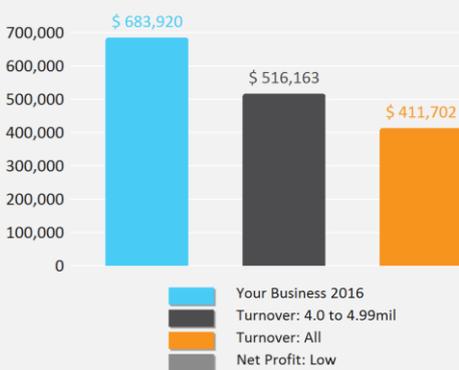
We have allocated a notional salary to equity principals after principal's salaries, to reflect the true profit

PROFIT MARGIN (AFTER NOTIONAL PRINCIPAL SALARIES of \$150,000)

Fees Controlled

GROSS FEES PER EQUITY PRINCIPAL

Profit per Equity Principal (BPS)



SAMPLE REPORT



2

Practice Staffing

Leverage

Employed Authors per equity principal

Fee Earner Utilisation

Staff wages and allowances

Support Levels



We have used various leverage measures to employ para-legal staff. Hours leverage measures the effective use of staff. We enjoy higher hours leverage than headcount leverage.

Leverage

Leverage is a measure of the number of employees employed per dollar earned profits beyond salary costs.

Employed Authors per equity principal

Employed authors per equity principal quantifies the number of employed authors per equity principal. There has been a strong positive correlation between employed authors per equity principal and your practice with employed fee earners increase. This indicates a more efficient utilisation of fixed resources and significant cost savings.

TABLE 1.0

Partners salary (notional)
First Solicitor salary
Second Solicitor salary
Secretary
WP
Non-salary overheads @ \$50,000 per person
Total cost
Available chargeable time
Cost per hour

The impact of leverage on cost of production is illustrated in the following table.

Note that the leveraged partner can compete with the un-leveraged partner by developing a process, training others to use it, coaching others to use it, resulting in a greater mid and long term return, benefiting all involved.

Note the above modelling only works if all fee earners are employed. If not, which results in profit being squeezed.

Employed Authors per EP

Maintaining your relatively high leverage is critical to your success. If your returns per salary dollar invested are adequate. Do not employ staff with less than 5 years experience. These are the employees that

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Fee Earner Utilisation

Hours leverage indicates the effectiveness of delegating work to fee earners for every hour generated by the equity principals. Every dollar billed by the equity principals.

Hours leverage (Effective Chargeable Hours)
Author dollars billed per EP dollar billed

Hours leverage indicates the effectiveness of delegating work to 'headcount' leverage above. Financial performance of work are delegated to employed fee earners and

Staff wages and allowances

The wages percentage in your firm is largely a function of wages percentage, low profit margin and high productivity impacted by increasing salaries. Employed lawyer part it is due to an ageing support staff base many

Although there are many subjective considerations expensive that juniors and occasionally less skilled recommend monitoring the cost of production and

Activity does not always correlate positively to productivity improved performance.

Staff Salaries and Bonuses

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Support Levels

The following ratios measure the number of direct legal support (paralegals) and lawyer. Direct legal support are the

Total support will include direct legal support plus

Support levels often vary based on factors such as
profitable practices tend to operate with lower su

Direct legal support per lawyer

Direct legal support per fee earner

Total support per lawyer

Total support per fee earner





3

Rates and Return

Quoted Hourly Rates

Estimated Cost of Production per Hour

Average Work Done per Salary \$

Average fees billed per fee earner

Realisation at Standard Hours



Quoted Hourly Rates

Price is an extremely important component of production with reference to the cost of producing the service.

- Equity Principals
- Non equity principals
- Associates
- Employed solicitors
- Paralegals

SAMPLE REPORT

Estimated Cost of Production per Hour

We have estimated cost of production per hour for each fee earner in each fee earner category. In our estimation, the allocation of support staff salaries and non salary support staff have factored in a notional salary of \$150,000 per annum. See the 'Resources' tab at www.fmrc.com.au

- Equity Principals
- Non equity principals
- Associates
- Employed solicitors
- Paralegals

SAMPLE REPORT

Average Work Done per Salary \$

This measure benchmarks the relative return on investment for every one dollar of salary invested.

- Equity Principals
- Non equity principals
- Associates
- Employed solicitors
- Paralegals

Ensure that all fee earners are adequately remunerated in the case that junior solicitors with between 2 and 5 years experience with a view to training and retaining them. It is generally assumed that you have adequate precedents and systems and procedures in place.

This phenomenon is more pronounced in firms where the person servicing fixed fee work the greater the gross billings.

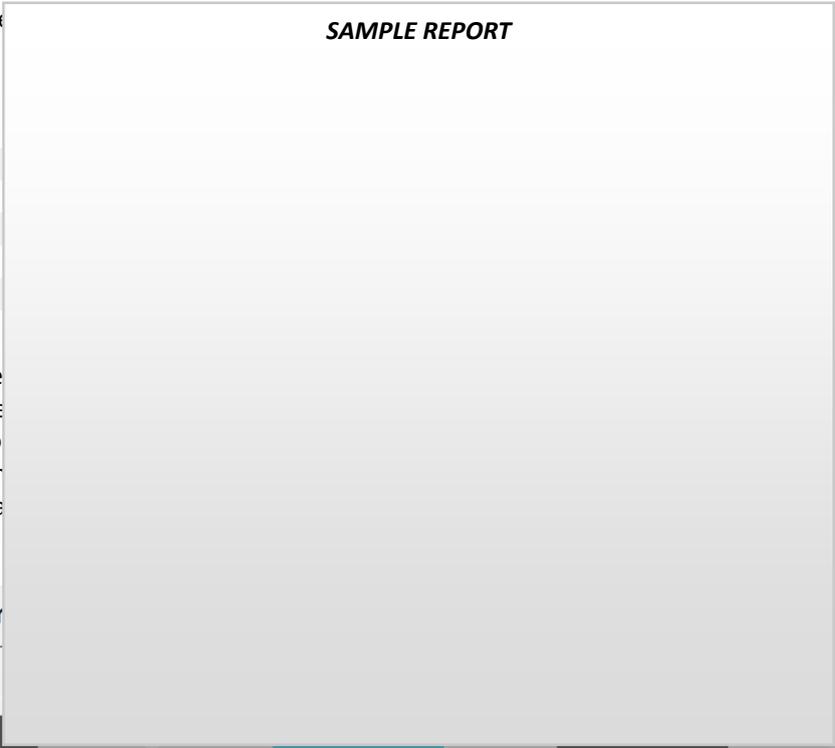


Average fees billed per fee earner

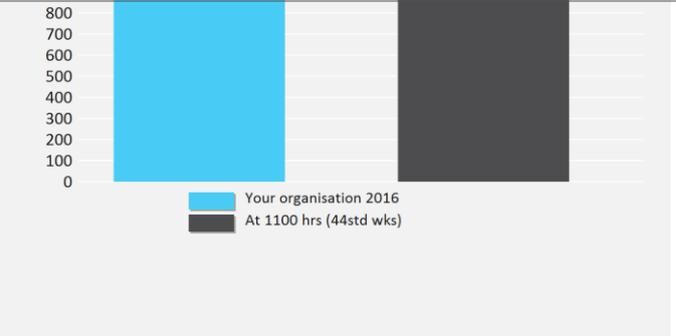
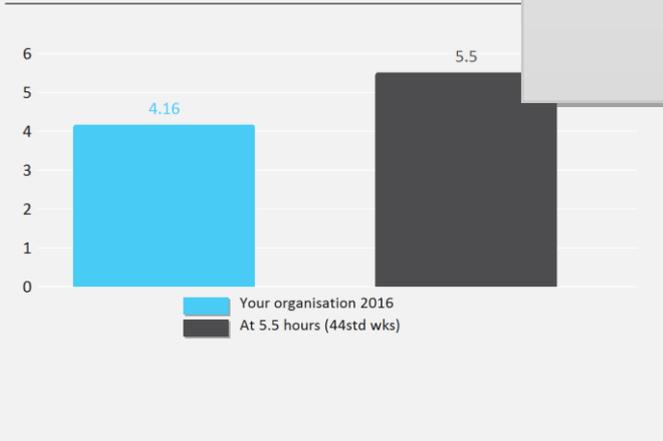
This measure reports average fee earner billing per effective hours charged

- Equity Principals
- Non equity principals
- Associates
- Employed solicitors
- Paralegals

The following graphs show the difference between Solicitors. 5.5 is a target commonly used and based on the fact that a solicitor's base salary is typically 5.5 times the base salary of a paralegal. Pushing work down from a higher cost base to a lower cost base is another critical item that is often overlooked. Recording is also another critical item that is often overlooked. Off making judgement calls on the work done to a



Average Effective Chargeable Hours per

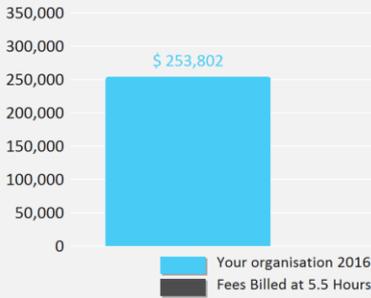




Your firm's result is below the benchmark to the impact on fees billed and return per solicitor. Solicitors typically make up the greatest portion of the total fees billed.

SAMPLE REPORT

Total Fees Billed - Employed Solicitors



Your organisation 2016 return with 5.5 Chg Hours

Realisation at Standard Hours

Realisation measures the amount of work billed as a percentage of the total work. 100% is the amount of work-in-progress (or potential) billed. Realisation is affected by off time or reducing the overall dollar amount. The benchmark is 90% per annum).

High performing firms minimise work-in-progress and achieve realisation rates higher than 90%.

- Equity Principals
- Non equity principals
- Associates
- Employed solicitors
- Paralegals

SAMPLE REPORT



4

Productivity

Average Effective Chargeable Hours per Annum

Average Effective Chargeable Hours per Day (44std working weeks)



Average Effective Chargeable Hours per Annum

This measure is determined by dividing total fees relative productivity. Underperformance does not or write offs at the time of billing. It may also indi

- Equity Principals
- Non equity principals
- Associates
- Employed solicitors
- Paralegals

SAMPLE REPORT

Average Effective Chargeable Hours per Day (44std working weeks)

These indicative figures have been determined by adjusting to full time equivalents for part time fee

- Equity Principals
- Non equity principals
- Associates
- Employed solicitors
- Paralegals

Improved, sustained performance depends on co not outperform sustained average performance. Constant measurement and coaching will raise the pricing methodology. In practices that record time enough to do and are productively doing it. In firms introduced and monitored such as gross billings p

If you record time, consider directing your focus a contribution' per day. Ensure that all fee earners a not. Encourage all fee earners to go beyond minir

** Please Note: Due to a change in methodology the next run of the project. Please contact us if yo

SAMPLE REPORT



5

Cash Flow

Cash Flow

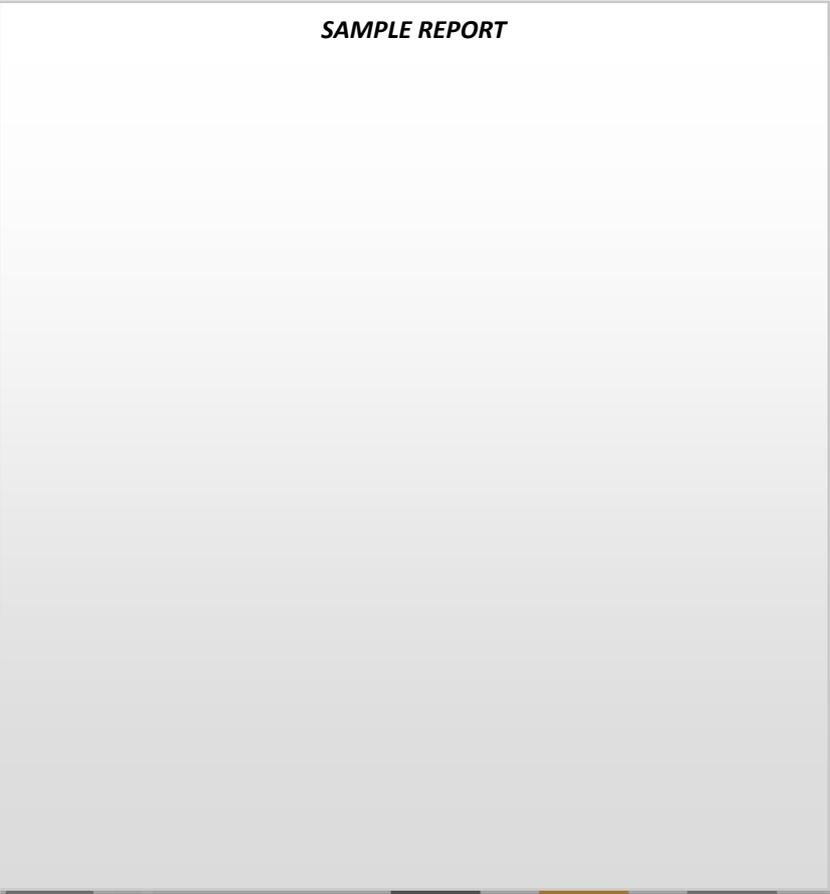


Cash Flow

These figures express the firm's investment in Working Capital in equivalent days. The number of days reported between the exact, the Days WIP and Days Debtors figure is a measure of the time between sending the invoice (Days WIP) and sending the invoice to the debtor (Days Debtors).

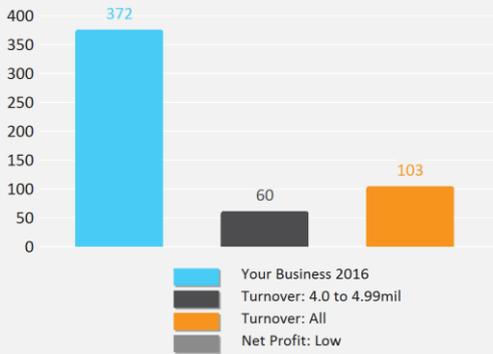
Days WIP
Days debtors

Whilst debtor management in your firm is sound, relatively high debtors are often created because of inaccurate or clients informed of any excess, before terms at commencement of their matter. Credit control is essential to ensure that debts are paid on time. Debts older than 30 days should be telephoned with a view to recovery. It is the responsibility of the fee earner (prevention not cure) although central



SAMPLE REPORT

Days WIP





6

Personnel Scorecard

Personnel Scorecard

1 - Equity Principals

2 - Non Equity Principals

3 - Associates

4 - Employed Solicitors

5 - Paralegals



Personnel Scorecard

1 - Equity Principals

Name	Fees / \$ Salary	Budget / \$ Salary	Fees / Budget	Effective CH / day	Budget CH / day	Effective CH p / a	Budget CH p / a
Harry			90.48%	4.09	4.52	900	995
Jamie			84.44%	3.84	4.55	844	1000
Lee			84.44%	3.84	4.55	844	1000

2 - Non Equity Principals

Name	Fees / \$ Salary	Budget / \$ Salary	Fees / Budget	Effective CH / day	Budget CH / day	Effective CH p / a	Budget CH p / a
James	2.92	2.92	100.00%	4.30	4.30	946	946

3 - Associates

Name	Fees / \$ Salary	Budget / \$ Salary	Fees / Budget	Effective CH / day	Budget CH / day	Effective CH p / a	Budget CH p / a
1 FTE	3.00	3.00	100.00%	4.55	4.55	1000	1000
0.5 FTE	3.00	3.00	100.00%	4.55	4.55	500	500

4 - Employed Solicitors

Name	Fees / \$ Salary	Budget / \$ Salary	Fees / Budget	Effective CH / day	Budget CH / day	Effective CH p / a	Budget CH p / a
Alan	2.51	1.14	220.59%	4.01	1.82	882	400
Carlo	3.65	3.76	97.06%	4.41	4.55	971	1000
Mark	2.80	1.70	165.00%	3.75	2.27	825	500
Michael	3.89	3.63	107.00%	4.70	4.39	1034	967
Michelle	3.26	2.58	126.52%	3.49	2.76	768	607
Sarah	2.85	1.42	200.84%	4.36	2.17	959	478

5 - Paralegals

Name	Fees / \$ Salary	Budget / \$ Salary	Fees / Budget	Effective CH / day	Budget CH / day	Effective CH p / a	Budget CH p / a
Anne	3.30	3.11	106.14%	4.82	4.55	1061	1000
Ryan	3.66	3.69	99.19%	5.07	5.11	1116	1125
Sally	3.47	3.40	101.97%	9.27	9.09	1020	1000



7 Scenario Modeller

Original Data



Original Data

	FTE:	Chg. Rate(\$):	Chg. Hours:	Realisation (%):	Production (\$):	Salaries (\$):
Equity Principals:	3.00	441	862	100	1140000	
Non Equity Principals:	1.00	370	946	100	350000	120000
Associates:	1.50	300	1000	100	450000	150000
Employed Solicitors:	6.00	277	916	100	1522809	483376
Paralegals:	2.50	173	1279	100	553151	159549
Direct Legal Support:	12.00					531751
Other Support:	3.00					297195
					Other Income: 11005	Non Sal OHead: 1159191
					Total Income: 4026965	Total OHead: 2901062
					NPPP: 375301	