



Legal Sample Company, 2023

BENCHMARK REPORT

Legal Business Monitor

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1

Income and Profit

Profit and Loss

Profitability

Fees Controlled



In its broadest sense, financial success in the law requires a practice to generate a sufficient level of total practice income to pay all expenses (staff salaries and non-salary overheads) and retain a reasonable portion as profit.

Management of both the income stream and the expenses of the practice are essential.

Profit and Loss

Many law firm overheads are fixed, that is to say they vary little with activity. It is often the case the most effective expense reduction strategy is to increase gross fees, relative to existing fixed expenditure. We have determined your expenses as a percentage of your total practice income.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
TOTAL PRACTICE INCOME	50,000,000	50,000,000	50,000,000	50,000,000
Staff Salaries and Bonuses	27,100,000	27,100,000	27,100,000	27,100,000
Staff Overheads	8,000,000	8,000,000	8,000,000	8,000,000
Staff Training and CLE / CPD	1,000,000	1,000,000	1,000,000	1,000,000
Accounting fees	1,000,000	1,000,000	1,000,000	1,000,000
External Advisors	1,000,000	1,000,000	1,000,000	1,000,000
Interest and Finance Costs	2,000,000	2,000,000	2,000,000	2,000,000
Communication Costs	1,000,000	1,000,000	1,000,000	1,000,000
Equipment	1,000,000	1,000,000	1,000,000	1,000,000
Occupancy	8,000,000	8,000,000	8,000,000	8,000,000
Marketing & PD	1,000,000	1,000,000	1,000,000	1,000,000
Advertising	1,000,000	1,000,000	1,000,000	1,000,000
Practice Certificates + PI	2,000,000	2,000,000	2,000,000	2,000,000
General, Life + Income Insurance	1,000,000	1,000,000	1,000,000	1,000,000
Library	1,000,000	1,000,000	1,000,000	1,000,000
Miscellaneous	1,000,000	1,000,000	1,000,000	1,000,000
TOTAL OVERHEADS	50,000,000	50,000,000	50,000,000	50,000,000
TOTAL NONSALARY OVERHEADS	29,000,000	29,000,000	29,000,000	29,000,000
PROFIT MARGIN (BPS)	23,000,000	23,000,000	23,000,000	23,000,000

For most firms, and depending on firm structure, the profit margin (before principal's salary) is in the order of 33%. Against this measure your firm has above average profit margins. By ensuring that all fee earners are productive and pricing their work at contemporary rates your profit margin may be increased further. Ensure that all staff are remunerated at market rates, are happy and productive in their respective jobs. If high profit margins are to be sustainable, firms require stable and well trained staff, and quality premises.



Profitability

Law firm profitability is measured in terms of Net Profit Per Equity Principal. This is a calculation in which the total dollar amount of profit (before principal's salaries) is divided by the number of equity principals in the practice.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
PROFIT PER EQUITY PRINCIPAL (BPS)	\$425,000	\$380,000	\$450,000	\$475,000
Profit per Full Parity Share	100%	92.0%	108.0%	113.0%

In terms of net profit per principal your firm is doing well. Key drivers of profit include productive employed fee earners, appropriate pricing, effective cash flow management, debtor control and expense control. Improving any of these factors will improve profit. Improving all of them increases profit significantly.

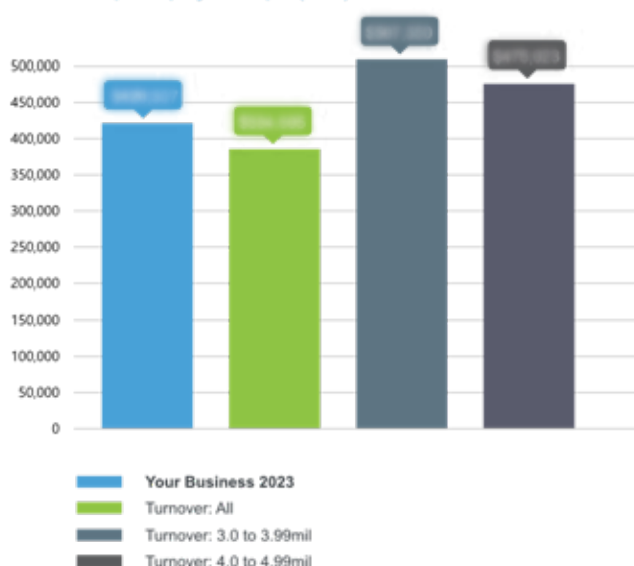
We have allocated a notional salary to equity principals of \$150 000 per equity principal. Which enables the profit margin, after principal's salaries, to reflect the true profit as a percentage of gross fees.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
PROFIT MARGIN (AFTER NOTIONAL PRINCIPAL SALARIES of \$150,000)	14.0%	10.0%	17.0%	18.0%

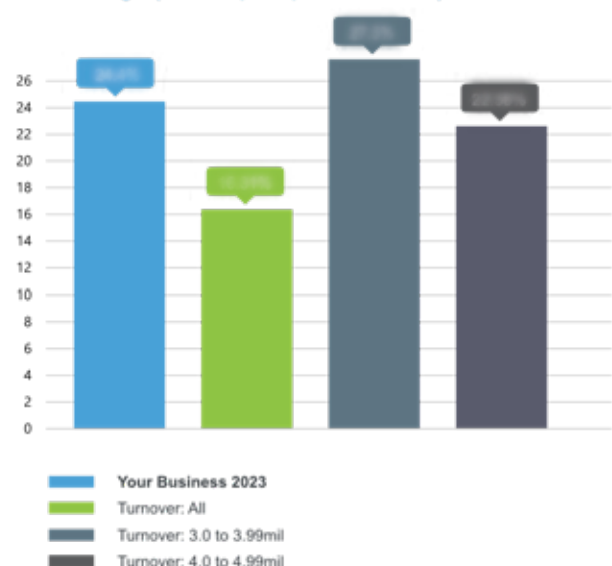
Fees Controlled

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
GROSS FEES PER EQUITY PRINCIPAL	\$1,100,000	\$1,200,000	\$1,300,000	\$1,400,000

Profit per Equity Principal (BPS)



Profit Margin (notional principal sal. of \$150k)





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Practice Staffing

Leverage

Employed Authors per equity principal

Fee Earner Utilisation

Staff wages and allowances

Staffing Levels

Support Levels



We have used various leverage measures to emphasise the importance of productive employed solicitors and fee earning para-legal staff. Hours leverage measures the effectiveness of delegation and overall productivity. More profitable practices enjoy higher hours leverage than headcount leverage.

Leverage

Leverage is a measure of the number of employed fee earners per equity principal. Leveraging human capital enables firms to earn profits beyond salary costs.

Employed Authors per equity principal

Employed authors per equity principal quantifies of the firms professional labour capital leverage. For several years there has been a strong positive correlation between employed lawyers per equity principal and net profit per principal. Leveraging your practice with employed fee earners increases your billing capacity significantly, decreases the cost of production through more efficient utilisation of fixed resources and significantly increases the chances of orderly succession.

TABLE 1.0

SOLE
PRACTITIONER

LEVERAGED
PRACTITIONER

Partners salary (notional)	\$1,000,000	\$1,000,000
First Solicitor salary	-	\$500,000
Second Solicitor salary	-	\$500,000
Secretary	\$50,000	\$50,000
WP	-	\$100,000
Non-salary overheads @ \$50,000 per person	\$1,000,000	\$1,000,000
Total cost	\$2,000,000	\$2,000,000
Available chargeable time	1,000 hours	1,000 hours
Cost per hour	\$2,000	\$2,000

The impact of leverage on cost of production is illustrated in the quick case study example above (Table 1.0).

Note that the leveraged partner can compete with a lower cost and enjoy a significantly greater margin. Taking the time to develop a process, training others to use it, coaching them, motivating them and retaining them will yield a significantly greater mid and long term return, benefiting all involved, including the client.

Note the above modelling only works if all fee earners are fully utilised. Many practices are carrying underutilised fee earners which results in profit being squeezed.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Employed Authors per EP	1.00	1.00	1.00	1.00

Maintaining your relatively high leverage is critical to sustained success. Ensure that all lawyers are productive and that returns per salary dollar invested are adequate. Develop a retention strategy that retains fee earning staff with between 2 and 5 years' experience. These are the employees that usually contribute the most relative to salary.



Fee Earner Utilisation

Hours leverage indicates the effectiveness of delegation in the practice by measuring the volume of hours generated by the fee earners for every hour generated by the equity principals. A related measure is the amount of fees billed by authors for every dollar billed by the equity principals.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Hours leverage (Effective Chargeable Hours)	1.25	1.25	1.25	1.25
Author dollars billed per EP dollar billed	\$1.25	\$1.25	\$1.25	\$1.25

Hours leverage indicates the effectiveness of delegation. In profitable firms, hours leverage exceeds the measure of 'headcount' leverage above. Financial performance will be optimised where principals in the firm ensure appropriate volumes of work are delegated to employed fee earners and they are supervised to ensure high productivity.

Staff wages and allowances

The wages percentage in your firm is largely a function of your leverage structure. Highly leveraged firms tend to have high wages percentage, low profit margin and high profits in terms of net profit per principal. The salary percentage can be further impacted by increasing salaries. Employed lawyers are more expensive than they have ever been and in many cases do less. In part it is due to an ageing support staff base many of whom receive annual salary increases for doing the same work.

Although there are many subjective considerations in the employment mix, objectively senior support staff are more expensive than juniors and occasionally less skilled. In many practices lawyers remain unaccountable for their effort. We recommend monitoring the cost of production and ensuring that all employed fee earners are capable of 'paying their way'.

Activity does not always correlate positively to profitability. Monitor chargeable hours and price regularly and coach for improved performance.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Staff Salaries and Bonuses	27.2%	27.2%	27.2%	27.2%



Staffing Levels

The following staffing level indicators show if a firm has too many people to produce the work that is being produced.

If total income per lawyer is low, review lawyer productivity. If total income per person is low and total income per lawyer is in line with the benchmark, review the 'support levels' section below.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Total Income per Lawyer	£120,000	£120,000	£120,000	£120,000
Total Income per Person	£120,000	£120,000	£120,000	£120,000

Support Levels

The following ratios measure the number of direct legal support and total support levels per fee earner (lawyers and paralegals) and lawyer. Direct legal support are those staff who assist in the completion of matters, e.g. secretaries.

Total support will include direct legal support plus all other support staff, e.g. accounts, reception, etc.

Support levels often vary based on factors such as firm size, number of offices and types of work. As a general rule the more profitable practices tend to operate with lower support levels. Many firms are now achieving support level norms of 0.6 and as low as 0.2 - 0.3 support staff per fee earner.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Direct legal support per lawyer	0.20	0.20	0.20	0.20
Direct legal support per fee earner	0.20	0.20	0.20	0.20
Total support per lawyer	0.20	0.20	0.20	0.20
Total support per fee earner	0.20	0.20	0.20	0.20



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 profitability, and is measured here in hourly rates. Firms should set hourly rates with reference to the cost of producing the service and desired profit margin.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Equity Principals	\$250	\$200	\$200	\$200
Non equity principals	\$175	\$150	\$175	\$175
Associates	\$150	\$125	\$150	\$150
Employed solicitors	\$125	\$100	\$125	\$125
Paralegals	\$50	\$75	\$75	\$75

Estimated Cost of Production per Hour

We have estimated cost of production per hour for fee earners to serve as a general indication of the cost of production per fee earner in each fee earner category. In our estimates we have used average salaries paid, effective chargeable hours and an allocation of support staff salaries and non salary overheads. In calculating the cost of production for equity principals we have factored in a notional salary of \$150,000 per equity principal. To access a detailed cost of production spreadsheet visit the 'Resources' tab at www.fmrc.com.au

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Equity Principals	\$250	\$200	\$200	\$200
Non equity principals	\$175	\$150	\$175	\$175
Associates	\$150	\$125	\$150	\$150
Employed solicitors	\$125	\$100	\$125	\$125
Paralegals	\$50	\$75	\$75	\$75

Average Work Done per Salary \$

This measure benchmarks the relative return on investment per fee earner category. The figures below are your return on every one dollar of salary invested.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Equity Principals	100	100	100	100
Non equity principals	111.11	111.11	111.11	111.11
Associates	125.00	125.00	125.00	125.00
Employed solicitors	150.00	150.00	150.00	150.00
Paralegals	200.00	200.00	200.00	200.00

Ensure that all fee earners are adequately remunerated. Although many firms seek to employ experienced solicitors it is often the case that junior solicitors with between 2 and 5 years' experience produce greater returns. Consider recruiting graduates with a view to training and retaining them. It is great if they stay but not the end of the world if they move on, particularly if you have adequate precedents and systems and processes for doing their work.

This phenomenon is more pronounced in firms where fixed fees, value billing or scale pricing are utilised. The cheaper the person servicing fixed fee work the greater the gross profit margin.



Average fees billed per fee earner

This measure reports average fee earner billing per fee earner. Any comparisons should consider relative hourly rates and effective hours charged

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil	
Equity Principals	\$1,200,000	\$875,000	\$975,000	\$850,000	
Non equity principals	\$1,100,000	\$,801,114	\$,107,860	\$,895,108	
Associates	\$1,000,000	\$,807,860	\$,807,860	\$,711,460	
Employed solicitors	\$1,100,000	\$,782,100	\$,719,000	\$,688,704	
Paralegals	\$100	\$,740,076	\$,740,076	\$,774,876	

The following graphs show the difference between 5.5 charge hours per day and 1100 charge hours per annum for Employed Solicitors.

5.5 is a target commonly used and based on 44 standard working weeks. Your result is below the target of 5.5. Pushing work down from a higher cost base to your Employed solicitors is one method to increase performance. Time recording is also another critical item that is often overlooked. Ensure that charge hours are being recorded and take the onus off making judgement calls on the work done to a more experienced staff member.

Average Effective Chargeable Hours per Day

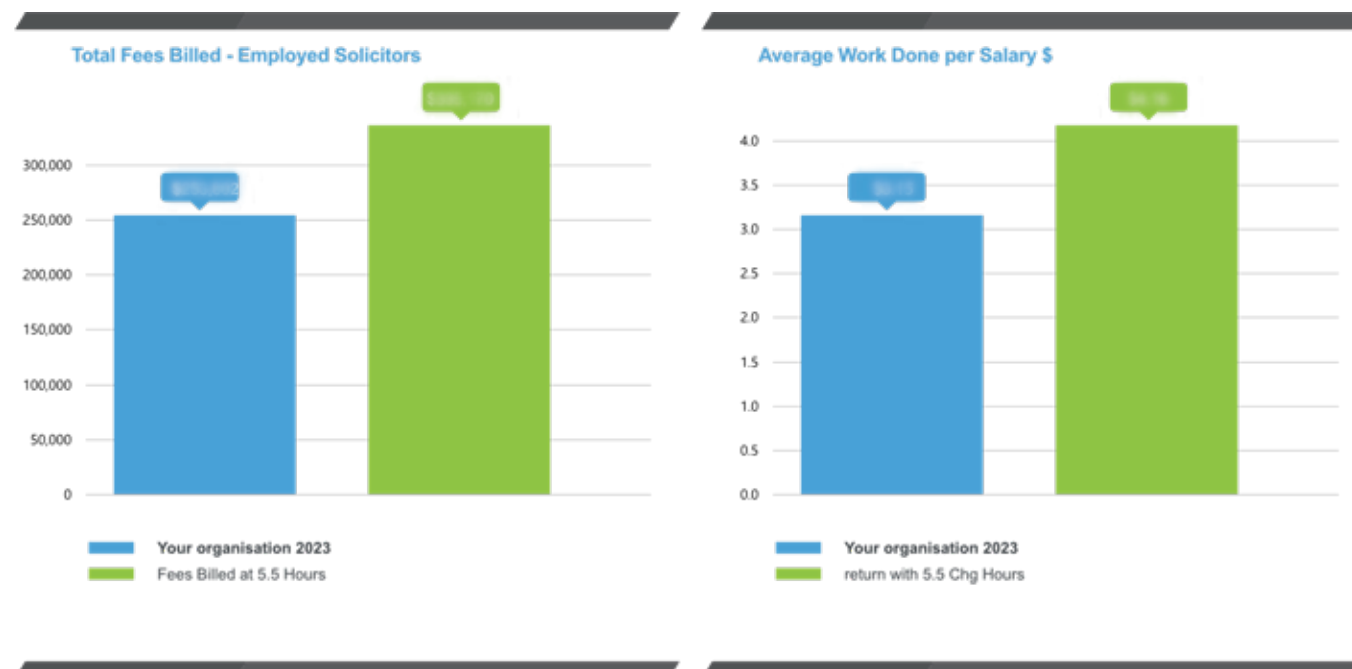


Average Effective Chargeable Hours per Annum





Your firm's result is below the benchmark target of 5.5 for the employed solicitor fee earner group. The following charts show the impact on fees billed and return per salary dollar if this target can be reached by your employed solicitors. As employed solicitors typically make up the greatest portion of full time equivalents it is critical for a firm to leverage their lower cost base.



Realisation at Standard Hours

Realisation measures the amount of work billed as a percentage of the total amount of work done. Any amount less than 100% is the amount of work-in-progress (or potential fees) written off. This write off could be due to a rate reduction, writing off time or reducing the overall dollar amount. The standard hours used in this calculation are 5 hours per day (1,100 per annum).

High performing firms minimise work-in-progress write offs and consequently have high realisation. These firms often have realisation rates higher than 90%.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Equity Principals	75.00%	75.00%	75.00%	75.00%
Non equity principals	85.00%	85.00%	85.00%	85.00%
Associates	85.00%	85.00%	85.00%	85.00%
Employed solicitors	55.00%	55.00%	55.00%	55.00%
Paralegals	55.00%	55.00%	55.00%	55.00%



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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 billed per fee earner by reported hourly rates and is a good indication of relative productivity. Underperformance does not necessarily indicate a lack of effort as it may indicate excessive discounting or write offs at the time of billing. It may also indicate a genuine lack of work available to the fee earners.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Equity Principals	1,200	1,200	1,200	1,200
Non equity principals	1,200	1,200	1,200	1,200
Associates	1,200	1,200	1,200	1,200
Employed solicitors	1,200	1,200	1,200	1,200
Paralegals	1,200	1,200	1,200	1,200

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

These indicative figures have been determined by applying a standard 5 day, 44 week year for full time fee earners and adjusting to full time equivalents for part time fee earners.

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Equity Principals	3.0	3.0	3.0	3.0
Non equity principals	3.0	3.0	3.0	3.0
Associates	3.0	3.0	3.0	3.0
Employed solicitors	3.0	3.0	3.0	3.0
Paralegals	3.0	3.0	3.0	3.0

Improved, sustained performance depends on consistency. Several spurts of high performance over the course of a year will not outperform sustained average performance. Productivity should be assessed weekly (or even daily in some cases). Constant measurement and coaching will raise the level of awareness and produce significant productivity gains, regardless of pricing methodology. In practices that record time, time sheets should be reviewed regularly to ensure that lawyers have enough to do and are productively doing it. In firms that do not record time alternative productivity measures should be introduced and monitored such as gross billings per month, new matters opened, matters closed etc.

If you record time, consider directing your focus away from annual budgets towards monitoring 'minimum acceptable contribution' per day. Ensure that all fee earners are achieving minimum acceptable contribution and replace those that are not. Encourage all fee earners to go beyond minimum acceptable contribution



5

Cash Flow

Cash Flow



Cash Flow

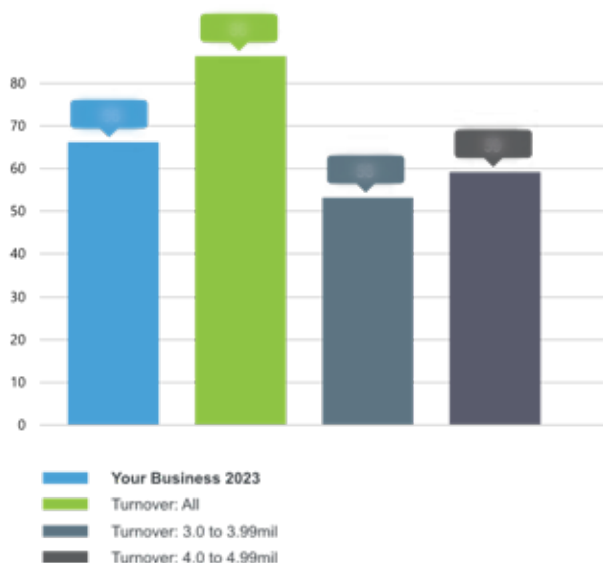
These figures express the firm's investment in Work In Progress and Debtors. We have expressed them in production equivalent days. The number of days reported below equates to working days at full production for the entire firm. Whilst not exact, the Days WIP and Days Debtors figure is a very close approximation of the elapsed time between doing the work and sending the invoice (Days WIP) and sending the invoice and being paid (Days Debtors).

	Your organisation	Turnover: All	Turnover: 3.0 to 3.99mil	Turnover: 4.0 to 4.99mil
Days WIP				
Days debtors				

Whilst debtor management in your firm is sound, you need to ensure this aspect of cash flow remains under control. Relatively high debtors are often created because client price expectation does not match outcome. Fee estimates should be accurate or clients informed of any excess, before the bills are sent. All clients should be made aware of the firms trading terms at commencement of their matter. Credit card facilities often helps to reduce debtors.

Debts older than 30 days should be telephoned weekly. Maintaining low debtor balances should be the responsibility of the fee earner (prevention not cure) although centralising the task of telephoning late payers is efficient.

Days WIP



Days Debtors

