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ACHIEVABLE PROFIT MARGIN ANALYSIS (APM)

The goal of an APM analysis it to indicate an attainable profit margin for each client and its influence on profit margin. The following chart provides an example of the impact of increasing the revenue of a dominant lower margin account.

SAMPLE ACCOUNT SCENARIO					
Client	**Revenue**	**% Profit**	**$ Profit**	**% All Fees**	**% of all Profit**
Client 1	600,000	20%	120,000	60%	48.00%
Client 2	300,000	30%	90,000	30%	36.00%
Client 3	100,000	40%	40,000	10%	16.00%
Total	1,000,000	25.00%	250,000	100%	100%

IMPACT ON BLENDED MARGIN WITH CHANGE IN REVENUE					
Client	**Revenue**	**PP**	**P $**	**% All Fees**	**% of All %**
Client 1	610,000	20%	122,000	60%	48.41%
Client 2	300,000	30%	90,000	30%	35.71%
Client 3	100,000	40%	40,000	10%	15.87%
Total	1,010,000	24.95%	252,000	100%	100%

In this example, profit margins will decline by ½ of one percent for every $10,000 increase in revenue from Client 1 without corresponding increases in Clients 2 and 3. Dollar profits, however, will increase by $2,000, which at some amount may be sufficient to overcome profit margin concerns.

Clients with the lowest profit margins are frequently the easiest to grow. Firms that fall into the trap of picking the “low hanging fruit” run the risk of permanently diluting profit percent and lock in a lower return for capital employed.

Achievable profit margin analysis combined with a detailed client/matter profitability analysis will indicate if internal staffing, overhead and realization efficiencies are possible. For example, instead of asking clients for a rate increase, it may be easier and just as profitable to request more latitude in staffing matters.