



CLIENT PROFITABILITY: ANALYSIS TO ACTION

Presented By: Brian Kennel

SESSION TOPICS

- ▶ Reliable methods for computing client profitability
- ▶ Client profitability data and client pricing, AFA's workload distribution and overhead control
- ▶ Opportunities, pitfalls and first time considerations
- ▶ Client profitability data and compensation
- ▶ Advantages of using client profitability models in lateral and merger analysis – performlaw.com/blog – case study 2/9 and 3/8 post



USES OF CLIENT PROFITABILITY DATA

- ▶ Client pricing (Rates other pricing);
 - ▶ [Article: Strategically Setting Billing Rates](#)
- ▶ Client staffing efficiency;
- ▶ Overhead efficiency;
- ▶ Compensation; and
- ▶ Orderly transfer of equity.



METHODOLOGY

- ▶ The reporting result (samples to follow) :
 - ▶ Detail client net income report – Originator Sort
 - ▶ Timekeeper profitability by client and Matter
 - ▶ Profitability by years of experience
 - ▶ Client Net Income Contribution Report – Summary





CLIENT NET INCOME REPORT INCLUDING PARTNER PR COSTS

SAMPLE LAW FIRM, LLC

PERIOD: January 1, 2014 THROUGH December 31, 2014

-----CLIENT TOTALS-----								ORIGINATING ATTORNEY(OA) SHARE OF CLEINT TOTALS			
WA Initials	Hours Relieved	Billed Amount	Payroll Cost- HR	Payroll Cost AMT	OH Cost HR	OH Cost AMT	Client Net Income	OA Share Fee Credits	OA Share Payroll Costs	OA Share Overhead Costs	OA Share Client Net Income
Sample Client								Originating Attorney(OA) Percent:			100.00%
WA Initials	Hours Relieved	Billed Amount	Payroll Cost- HR	Payroll Cost AMT	OH Cost HR	OH Cost AMT	Client Net Income	OA Share Fee Credits	OA Share Payroll Costs	OA Share Overhead Costs	OA Share Client Net Income
XXX	1.4	\$274	\$80.00	\$108	\$74.27	\$100	\$66	\$274	\$108	\$100	\$66
XXX	5.8	\$589	\$49.40	\$288	\$21.45	\$125	\$176	\$589	\$288	\$125	\$176
XXX	0.4	\$40	\$48.24	\$20	\$12.20	\$5	\$15	\$40	\$20	\$5	\$15
XXX	6.0	\$681	\$73.59	\$444	\$56.26	\$339	(\$102)	\$681	\$444	\$339	(\$102)
XXX	0.2	\$0	\$97.60	\$20	\$149.28	\$31	(\$51)	\$0	\$20	\$31	(\$51)
XXX	48.5	\$9,834	\$80.00	\$3,877	\$57.34	\$2,779	\$3,178	\$9,834	\$3,877	\$2,779	\$3,178
XXX	12.3	\$2,259	\$83.00	\$1,019	\$28.36	\$348	\$893	\$2,259	\$1,019	\$348	\$893
Client Total	74.568	\$13,678	\$77.47	\$5,776	\$50.00	\$3,728	\$4,175	\$13,678	\$5,776	\$3,728	\$4,175

Sample Client								Originating Attorney(OA) Percent:			20.00%
WA Initials	Hours Relieved	Billed Amount	Payroll Cost- HR	Payroll Cost AMT	OH Cost HR	OH Cost AMT	Client Net Income	OA Share Fee Credits	OA Share Payroll Costs	OA Share Overhead Costs	OA Share Client Net Income
XXX	13.9	\$1,263	\$48.24	\$672	\$9.25	\$129	\$462	\$253	\$134	\$26	\$92
XXX	143.8	\$13,089	\$49.40	\$7,106	\$21.45	\$3,086	\$2,898	\$2,618	\$1,421	\$617	\$580
XXX	84.2	\$6,729	\$48.24	\$4,064	\$12.20	\$1,027	\$1,638	\$1,346	\$813	\$205	\$328
XXX	11.3	\$1,611	\$47.97	\$544	\$16.04	\$182	\$885	\$322	\$109	\$36	\$177
XXX	5.9	\$842	\$71.95	\$427	\$57.17	\$339	\$77	\$168	\$85	\$68	\$15
	49.9	\$7,145	\$71.43	\$3,566	\$53.34	\$2,663	\$917	\$1,429	\$713	\$533	\$183
	167.1	\$27,260	\$80.00	\$13,370	\$57.34	\$9,583	\$4,307	\$5,452	\$2,674	\$1,917	\$861
	476.32	\$57,940	\$62.45	\$29,748	\$35.71	\$17,008	\$11,184	\$11,588	\$5,950	\$3,402	\$2,237

TIMEKEEPER PROFIT ANALYSIS

		PRACTICE 1											
		PRACTICE 1 - CLIENT/MATTER LEVEL PROFITABILITY - TIMEKEEPER SORT											
		Client Hours TK Billed	Revenue Credit	Collected Rate/Avg. Rate	TK PR Cost/Hr.	OH Cost / Hr.	Payroll Cost \$	Overhea d Cost \$	Net Profit Before AR WO/Reserv	AR WO Reserve (1)	Net Profit	% Profit	
Client 1	Matter 1	A4	195	35,200	180.51	64.40	59.93	12,558	11,685	10,957	96	10,861	30.85%
Client 1	Matter 2	A4	156	30,800	197.44	64.40	59.93	10,046	9,348	11,405	84	11,321	36.76%
Client 2	Matter 1	A4	293	70,400	240.68	64.40	59.93	18,837	17,528	34,035	192	33,843	48.07%
Client 2	Matter 2	A4	332	79,200	238.91	64.40	59.93	21,349	19,865	37,986	216	37,770	47.69%
Client 3	Matter 1	A4	488	110,000	225.64	64.40	59.93	31,395	29,214	49,391	300	49,091	44.63%
Client 3	Matter 2	A4	488	114,400	234.67	64.40	59.93	31,395	29,214	53,791	312	53,479	46.75%
Sub-total			1,950	440,000	225.64			125,580	116,854	197,566	1,200	196,366	44.63%
Client 1	Matter 1	P2	216	71,500	331.02	131.50	91.62	28,405	19,791	23,305	165	23,140	32.36%
Client 1	Matter 2	P2	216	58,500	270.83	131.50	91.62	28,405	19,791	10,305	135	10,170	17.38%
Client 2	Matter 1	P2	234	91,000	388.89	131.50	91.62	30,772	21,440	38,789	210	38,579	42.39%
Client 2	Matter 2	P2	450	169,000	375.56	131.50	91.62	59,176	41,230	68,593	390	68,203	40.36%
Client 3	Matter 1	P2	306	117,000	382.35	131.50	91.62	40,240	28,037	48,724	270	48,454	41.41%
Client 3	Matter 2	P2	378	143,000	378.31	131.50	91.62	49,708	34,633	58,658	330	58,328	40.79%
Sub-total			1,800	650,000	361.11			236,705	164,921	248,374	1,500	246,874	37.98%
Client 1	Matter 1	PL1	121	11,200	92.53	47.27	21.90	5,722	2,650	2,828	133	2,695	24.06%
Client 1	Matter 2	PL1	106	9,600	90.64	47.27	21.90	5,007	2,319	2,274	114	2,160	22.50%
Client 2	Matter 1	PL1	227	25,600	112.80	47.27	21.90	10,729	4,969	9,902	304	9,598	37.49%
Client 2	Matter 2	PL1	303	32,000	105.75	47.27	21.90	14,305	6,626	11,070	380	10,690	33.41%
Client 3	Matter 1	PL1	303	30,400	100.46	47.27	21.90	14,305	6,626	9,470	361	9,109	29.96%
Client 3	Matter 2	PL1	454	51,200	112.80	47.27	21.90	21,457	9,938	19,805	608	19,197	37.49%
Sub-total			1,513	160,000	105.75			71,524	33,128	55,349	1,900	53,449	33.41%
Total			5,263	1,250,000	105.75			433,809	314,903	501,288	4,600	496,688	33.41%

RESULTS BY YEARS OF EXPERIENCE

<u>Matter 1</u>	ANALYTICS							
	RESULTS BY YEARS OF EXPERIENCE							
	Years	%	Client	Collected	TK PR	OH Cost	Net Profit	
	Exp	Workload	Hours Billed	Rate/Avg. Rate	Cost/Hr.	/ Hr.	Per Hour	% Profit
	16	11%	16	18	6	6	5.29	1.85%
	9	16%	38	24	10	6	8.94	4.07%
	6	14%	51	34	10	9	15.06	7.35%
	6	21%	76	32	12	8	11.89	6.29%
	5	10%	44	35	13	12	10.61	6.02%
	10	2%	4	10	5	2	2.71	2.81%
	11	22%	44	8	4	1	2.68	2.87%
	9	6%	14	10	5	2	1.74	2.04%

<u>Matter 2</u>	RESULTS BY YEARS OF EXPERIENCE							
	RESULTS BY YEARS OF EXPERIENCE							
	Years	%	Client	Collected	TK PR	OH Cost	Net Profit	
	Exp	Workload	Hours Billed	Rate/Avg. Rate	Cost/Hr.	/ Hr.	Per Hour	% Profit
	16	13%	16	18	6	6	5.35	1.87%
	9	17%	38	24	10	6	8.94	4.07%
	6	20%	68	31	10	9	12.02	6.44%
	6	14%	46	32	12	8	12.35	6.44%
	5	9%	35	39	13	12	13.92	7.22%
	10	2%	3	10	5	2	3.18	3.15%
	11	20%	36	9	4	1	2.92	3.04%
	9	6%	12	9	5	2	1.55	1.85%

CLIENT CONTRIBUTION



CLIENT NET INCOME CONTRIBUTION REPORT-SUMMARY

Sample Law Firm, LLC

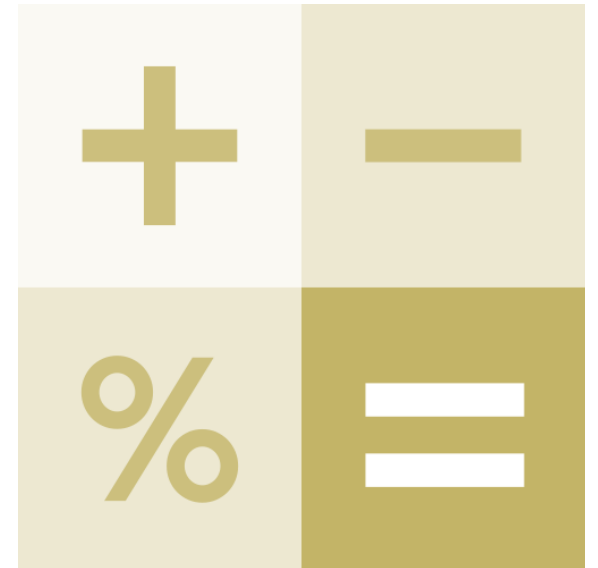
PERIOD: January 1, 2014 THROUGH December 31, 2014

PARTNER COSTS ALLOCATED AT \$80 PHR

	Billed Amount	Client Net Income	Percent Profit	Percent Total (Billed)	Percent Total (Net)
Client Name	\$2,388,535	\$1,109,043	46.43%	15.27%	26.87%
Client Name	\$940,533	\$264,158	28.09%	6.01%	6.40%
Client Name	\$625,715	\$176,098	28.14%	4.00%	4.27%
Client Name	\$558,577	\$173,694	31.10%	3.57%	4.21%
Client Name	\$458,814	\$110,362	24.05%	2.93%	2.67%
Client Name	\$418,329	\$108,407	25.91%	2.67%	2.63%
Client Name	\$310,676	\$101,754	32.75%	1.99%	2.46%
Client Name	\$434,796	\$101,646	23.38%	2.78%	2.46%
Client Name	\$224,852	\$95,425	42.44%	1.44%	2.31%
Client Name	\$275,095	\$88,962	32.34%	1.76%	2.16%
Client Name	\$270,838	\$83,486	30.83%	1.73%	2.02%
Client Name	\$145,985	\$74,590	51.09%	0.93%	1.81%
Client Name	\$432,025	\$72,715	16.83%	2.76%	1.76%
Client Name	\$208,531	\$65,292	31.31%	1.33%	1.58%
Client Name	\$202,688	\$64,752	31.95%	1.30%	1.57%
Client Name	\$164,876	\$59,002	35.79%	1.05%	1.43%
Client Name	\$139,509	\$53,826	38.58%	0.89%	1.30%
Client Name	\$96,778	\$52,226	53.97%	0.62%	1.27%
Client Name	\$129,704	\$45,211	34.86%	0.83%	1.10%
Client Name	\$340,515	\$42,932	12.61%	2.18%	1.04%
Client Name	\$242,321	\$39,100	16.14%	1.55%	0.95%
Client Name	\$186,372	\$39,019	20.94%	1.19%	0.95%
Client Name	\$151,853	\$36,681	24.16%	0.97%	0.89%
Client Name	\$241,212	\$35,807	14.84%	1.54%	0.87%
Client Name	\$81,567	\$32,624	40.00%	0.52%	0.79%
Client Name	\$98,023	\$32,146	32.79%	0.63%	0.78%
Client Name	\$53,552	\$30,063	56.14%	0.34%	0.73%
Client Name	\$185,434	\$29,090	15.69%	1.19%	0.70%
Client Name	\$103,991	\$27,373	26.32%	0.66%	0.66%
Client Name	\$71,778	\$26,681	37.17%	0.46%	0.65%
Client Name	\$91,977	\$25,337	27.55%	0.59%	0.61%
Client Name	\$188,040	\$23,416	12.45%	1.20%	0.57%
Client Name	\$80,795	\$22,566	27.93%	0.52%	0.55%
Client Name	\$107,305	\$22,338	20.82%	0.69%	0.54%

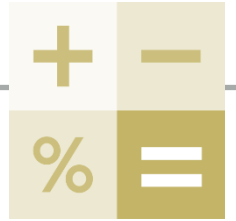
HOW IS IT CALCULATED?

- ▶ Data needed from time and billing system
 - ▶ Fees billed by working attorney (WA) by client or matter*
 - ▶ Hours billed by WA by client or matter
 - ▶ Origination credit by client or matter
 - ▶ AR write off by client or matter
 - ▶ Fees billed and received by timekeeper



* If running at the matter level





HOW IS IT CALCULATED?

- ▶ Other data needed
 - ▶ Payroll and benefit history for the period
 - ▶ Secretarial or direct support payroll
 - ▶ Income statement - direct and indirect allocations
 - ▶ Employee starts and terms during the period
 - ▶ Allocation policy defining specific and general cost allocations



HOW IS IT CALCULATED?

- ▶ Scaling Concerns (estimates based on a sample set of 2):

	Data Table Estimates (#Records) *				
	Number of Lawyers				
	50	100	200	300	500
Client Level	1,667	3,333	6,667	10,000	16,667
Matter Level	10,000	20,000	40,000	60,000	100,000
Factor	6	6	6	6	6

*Actual number of records may vary widely by firm and practice type





HOW IS IT CALCULATED?

- ▶ Financial system profitability module
 - ▶ Still perform many of the cost calculations and load
 - ▶ May need enhanced reporting
 - ▶ Should try first
 - ▶ Other option is to use a 3rd party module
 - ▶ Create an in house utility





HOW IS IT CALCULATED?

- ▶ Direct costs
 - ▶ Timekeeper salaries and benefits
 - ▶ Billable hour versus standard hour divisor
 - ▶ Easy to identify





HOW IS IT CALCULATED?

- ▶ Specifically allocated overhead
 - ▶ Sometimes also referred to as direct costs
 - ▶ Secretarial and clerical support salaries and benefits
 - ▶ Business development costs
 - ▶ IT Costs*

* *As per seat costing continues to become more prevalent, IT costs may be direct.*



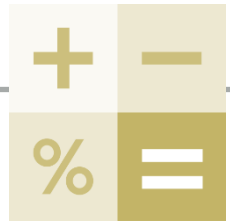


HOW IS IT CALCULATED?

- ▶ Generally allocated overhead
 - ▶ Facility costs;
 - ▶ Equipment and practice aids
 - ▶ Practice development*; and
 - ▶ General and administrative costs.

* *As mentioned previously, some of this is being specifically allocated.*





HOW IS IT CALCULATED?

- ▶ Overhead application
 - ▶ Graduated level of overhead absorption recommended
 - ▶ Example:
 - ▶ Equity Partner – full share
 - ▶ Non Equity Partner - .75 share
 - ▶ Associates - .50 share
 - ▶ Paralegals - .25 share



▶ WHY I RECOMMEND A GRADUATED LEVEL OF OVERHEAD ABSORPTION



HOW IS IT CALCULATED?



Allocating indirect: 70-75% is normally direct with 25-30% indirect

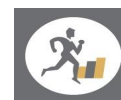
Expense	Common Range	Direct	Indirect
<i>Payroll and Related</i>	44%	40%	4%
Facilities	6%		6%
<i>Equipment Practice Aids</i>	4%	2%	2%
Practice Development	3%	3%	
<i>General and Administrative</i>	3%		3%
Total	60%	45%	15%
<i>Percent Total</i>		75%	25%





HOW IS IT CALCULATED?

- ▶ Graduated overhead absorption
 - ▶ Allow younger lawyers time to build value resulting in higher billed rates;
 - ▶ Remove disincentives to use associates for fear of high overhead rates;
 - ▶ Paralegals and associates don't really need or use as much overhead as a partner; and
 - ▶ Waste and inefficiency defaults to the partners





HOW IS IT CALCULATED?

- ▶ Billable Hours or Billed Hours for overhead application
 - ▶ Billable hours as the denominator
 - ▶ Timing differences
 - ▶ Overhead is applied hourly as it is billed
 - ▶ Computing client profitability on a billed basis
 - ▶ AR and Allowance reserve to reconcile to cash



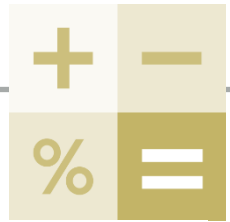
RECAP OF OVERHEAD ALLOCATION

► Overhead allocation report

Cost types	Amounts
<i>Total expenses</i>	<i>9,000,000</i>
Less direct timekeeper costs	(4,500,000)
<i>Sub-total direct</i>	<i>4,500.000</i>
Less specifically allocated overhead	(1,400,000)
<i>Generally overhead for allocation</i>	<i>3,100,000</i>



HOW IS IT CALCULATED?



OVERHEAD										COST PER HOUR					
Timekeeper	Timekeeper Pay (1)	Direct			EQ. and					TK Pay	Overhead	Billable Hours (2)	T-Keeper		Total Cost Per Hr.
		Secretary	Admin PR	Facility	PA	D	Costs	G & A	Total				PR Cost Hr.	OH Cost Hr.	
Partner 1	210,000	71,173	25,235	37,452	16,542	37,333	5,629	18,027	421,392	210,000	211,392	2,205	95.24	95.87	191.11
Partner 2	227,500	45,579	25,235	37,452	15,567	13,333	4,629	16,712	386,007	227,500	158,507	1,730	131.50	91.62	223.13
Partner 3	166,250	43,087	25,235	37,452	97	48,333	6,629	20,667	347,751	166,250	181,501	1,710	97.22	106.14	203.36
35.00%	603,750	159,839	75,706	112,357	32,206	99,000	16,888	55,406	1,155,150	603,750	551,400	5,645	106.95	97.68	204.63
Associate 1	181,125	23,724	18,926	28,089	16,542	6,633	4,629	11,833	291,502	181,125	110,377	2,100	86.25	52.56	138.81
Associate 2	136,563	29,877	18,926	28,089	16,542	5,833	3,129	11,833	250,792	136,563	114,230	2,200	62.07	51.92	114.00
Associate 3	136,275	29,877	18,926	-	16,542	7,333	2,829	11,833	223,615	136,275	87,340	1,900	71.72	45.97	117.69
Associate 4	120,750	30,782	18,926	28,089	15,567	5,533	1,629	11,833	233,110	120,750	112,360	1,875	64.40	59.93	124.33
Associate 5	146,625	45,579	18,926	28,089	16,542	7,033	2,529	11,833	277,157	146,625	130,532	2,250	65.17	58.01	123.18
Associate 6	130,813	43,087	18,926	28,089	15,967	5,633	2,129	11,833	256,477	130,813	125,665	2,250	58.14	55.85	113.99
Sub-total	852,150	202,926	113,559	140,446	97,700	38,000	16,875	70,999	1,532,654	852,150	680,504	12,575	67.77	54.12	121.88
Paralegal 1	78,000	-	6,309	9,363	11,842	3,333	879	4,401	114,128	78,000	36,128	1,650	47.27	21.90	69.17
Paralegal 2	79,500	-	6,309	-	11,842	3,333	979	4,401	106,364	79,500	26,864	1,700	46.76	15.80	62.57
Paralegal 3	76,200	-	6,309	9,363	11,842	3,333	1,129	4,401	112,578	76,200	36,378	1,625	46.89	22.39	69.28
Sub-total	233,700	-	18,926	18,726	35,525	10,000	2,988	13,204	333,070	233,700	99,370	4,975	46.97	19.97	66.95
Total	1,689,600	362,765	208,191	271,529	165,431	147,000	36,750	139,610	3,020,874	1,689,600	1,331,274	23,195	72.84	57.39	130.24
	2,541,750														

1) Equity partner timekeeper pay is assumed to be 35% in this example. Some firms prefer a set amount per hour or some amount based on the firm's compensation plan. The method used in this example is based on market value of timekeeper results. Associate and paralegal compensation is assumed to be attributable to timekeeping. Any amounts for origination or for administrative work (paralegals) may have to be allocated differently (overhead allocation based on use).

2) In this example, billable hours are used as the denominator for calculation cost per hour. Some firms use hours billed, which is not an issue as long as the there relatively short time period between when an hour is worked and when it is billed. Normally, hours are costed when they are billed, which more closely matches them with creation of revenue (billing). A more sophisticated system could store costs for later use when hours are billed. Again, if there is not a long timing difference, the value of creating such a system would be less valuable.



STRATEGIC CONSIDERATIONS

- ▶ Gross Margin

- ▶ Gross margin is the amount remaining after accounting for direct costs.
- ▶ Negative gross margins
- ▶ Partial contributions to overhead and no contribution to profit



STRATEGIC CONSIDERATIONS

- ▶ Gross Margin Continued
 - ▶ Examples of marginal cost thinking
 - ▶ Start-up branch office, new practice area
 - ▶ Attracting work from certain clients
 - ▶ Firm growth
 - ▶ Short term and long term





All timekeepers ultimately need to cover direct costs, absorb overhead and contribute to profits, but there are strategic components to a timekeeper's contribution at a given time.

STRATEGIC CONSIDERATIONS

INTERPRETING RESULTS AND ACTION STEPS

- ▶ Net Profit
 - ▶ Ability to cover all direct costs and overhead
 - ▶ Acceptable profit margins
 - ▶ **Client ranking tools**
 - ▶ percent profit,
 - ▶ actual profit dollars contributed,
 - ▶ gross fees generated and
 - ▶ overhead absorbed



INTERPRETING RESULTS AND ACTION STEPS

- ▶ Net Profit Continued
 - ▶ Analyzing a high-volume but underperforming account
 - ▶ Efficiency of the staffing mix
 - ▶ Competitiveness of the firm's overhead structure
 - ▶ Realization performance and indicated quality issues
 - ▶ Billing rate increases



► RECOMMENDATIONS



Utilize client profitability data, rates, staffing mix, costs per hour and overhead structure to expand the options a firm has for improving profits.

- Singular strategies are not optimal.
-

USES OF CLIENT PROFITABILITY DATA

- ▶ Client pricing (Rates other pricing);
 - ▶ <http://performlaw.com/strategically-setting-billing-rates/>
- ▶ Client staffing efficiency;
- ▶ Overhead efficiency;
- ▶ Compensation; and
- ▶ An Orderly transfer of equity(see performlaw.com/blog 12-21 post)





When pricing client work, firms should consider the following :

- Existing position in the client's buying strategy?
 - Existing and foreseeable market factors?
 - Efficiency of client account staffing?
 - Efficiency of overhead;
 - Intangibles including fixed cost absorption , training opportunities etc.;
 - and
 - Opportunity costs
-

**CLIENT PROFITABILITY
DATA AND PRICING**

CLIENT PROFITABILITY DATA AND PRICING

- ▶ Alternative pricing approaches
 - ▶ Blended rate
 - ▶ Price at fixed point (median, low, high etc.)
 - ▶ Data needed
 - ▶ Analysis



Sample Law Firm
Alternative Fee Model (using client profitability data)

Total Matters		5											
	WA	Hours Relieved	Billed Amount	Cost Per Hour		Extended Cost		Gross Margin	Contributions		Billing Rate		% Profit
				Payroll	Overhead	Payroll	Overhead		OH	Profit	Current	Breakeven	
<u>Partners</u>													
	P1	133	43,225	90.00	76.39	11,970	10,160	31,255	10,160	21,095	325.00	166.39	48.80%
	P2	53	14,630	90.00	67.95	4,788	3,615	6,227	3,615	2,612	275.00	157.95	17.86%
	Sub-total	186	57,855	90.00	73.98	16,758	13,775	37,482	13,775	23,708	310.71	163.98	40.98%
<u>Associates</u>													
	A1	399	89,775	107.69	56.41	42,969	22,508	46,806	22,508	24,298	225.00	164.10	27.07%
	A2	27	5,719	71.43	51.43	1,900	1,368	3,819	1,368	2,451	215.00	122.86	42.86%
	A3	133	28,595	81.18	60.29	10,796	8,019	17,799	8,019	9,779	215.00	141.47	34.20%
	Sub-total	559	124,089	99.65	57.10	55,666	31,895	68,423	31,895	36,528	222.14	156.75	29.44%
<u>Paralegals</u>													
	PL1	133	16,625	60.00	23.44	7,980	3,117	8,645	3,117	5,528	125.00	83.44	33.25%
	PL2	51	6,338	48.00	21.43	2,434	1,086	2,817	1,086	1,731	125.00	69.43	27.31%
	Sub-total	184	22,963	56.69	22.88	10,414	4,204	11,462	4,204	7,259	125.00	79.57	31.61%
Matter Total		928.5	204,907	89.22	53.71	82,837	49,873	117,368	49,873	67,495	220.69	142.93	32.94%
	WA	Hours Relieved	Billed Amount	Cost Per Hour		Extended Cost		Gross Margin	Contributions		Billing Rate		% Profit
				Payroll	Overhead	Payroll	Overhead		OH	Profit	Blended Rate	Breakeven	
Priced at Low		928.5	185,160	89.11	53.63	82,735	49,793	102,425	49,873	52,552	199.42	142.73	28%
Priced at Median		928.5	204,907	89.20	53.70	82,823	49,862	122,084	49,873	72,211	220.69	142.90	35%
Priced at High		928.5	239,531	89.58	54.00	83,176	50,138	156,355	49,873	106,482	257.98	143.58	44%
Partners											310.71		
Associates											222.14		
Sub-total											244.29		
Paralegals											125.00		

Summary - All 5 Matters

WA	Hours Relieved	Billed Amount	Cost Per Hour		Extended Cost		Gross Margin	Contributions		Billing Rate	
			Payroll	Overhead	Payroll	Overhead		OH	Profit	Current	Breakeven
Matter 1	175	38,575	89	54	15,593	9,385	13,597	9,385	12,703	220	143
Matter 2	180	39,732	89	54	16,061	9,666	14,005	9,666	13,084	220	143
Matter 3	189	41,661	89	54	16,841	10,135	14,685	10,135	13,719	220	143
Matter 4	168	37,032	89	54	14,970	9,009	13,053	9,009	12,195	220	143
Matter 5	216	47,906	90	54	19,372	11,677	16,857	11,677	15,793	222	144
Low	168	37,032	89	54	14,970	9,009	13,053	9,009	12,195	220	143
Median	186	40,981	89	54	16,567	9,975	14,439	9,975	13,499	221	143
High	216	47,906	90	54	19,372	11,677	16,857	11,677	15,793	222	144
Matters < Median	2	2	1	1	2	2	2	2	2	1	1
Matters > Median	3	3	4	4	3	3	3	3	3	4	4

Data

Matters > Median											
Matter 1	0	0	0	0	0	0	0	0	0	0	0
Matter 2	0	0	0	0	0	0	0	0	0	0	0
Matter 3	1	1	0	0	1	1	1	1	1	0	0
Matter 4	0	0	0	0	0	0	0	0	0	0	0
Matter 5	1	1	1	1	1	1	1	1	1	1	1
Sub-total	2	2	1	1	2	2	2	2	2	1	1
Matters < Median											
Matter 1	1	1	1	1	1	1	1	1	1	1	1
Matter 2	1	1	1	1	1	1	1	1	1	1	1
Matter 3	0	0	1	1	0	0	0	0	0	1	1
Matter 4	1	1	1	1	1	1	1	1	1	1	1
Matter 5	0	0	0	0	0	0	0	0	0	0	0
Sub-total	3	3	4	4	3	3	3	3	3	4	4

CLIENT PRICING

- ▶ **REMOVE THE GUESS WORK**
- ▶ Measures
 - ▶ Revenue and cost per hour
 - ▶ Contribution margin %
 - ▶ Profit \$ and %
 - ▶ Percent of firm profit
 - ▶ Competitive concerns
 - ▶ Subjective considerations (loss leader, training, etc.)



DATA DRIVEN COMPENSATION

▶ WHAT SHOULD PARTNERS EXPECT?

- ▶ Pay partners a competitive market return
- ▶ Provide capital to build a practice
- ▶ Access to billable work while building a practice
- ▶ Better opportunities as result of association with other partners



CLIENT PROFITABILITY IN COMPENSATION

- ▶ A management tool
- ▶ Origination splitting policy
- ▶ Methodology for equating client net income to compensation
- ▶ Mechanics can get contentious
- ▶ Powerful motivator





HOW IS IT CALCULATED?

- ▶ Before we start, a note about originators and support partners
 - ▶ Origination policies
 - ▶ Support partner originations
 - ▶ Recommendations
 - ▶ Origination credit if earned
 - ▶ Production, Leveraging and Training Bonuses



CLIENT PROFITABILITY & COMPENSATION

- ▶ How should we think about compensation?
 - ▶ Market for compensating attorneys is mature
 - ▶ Run compensation results / market payout
 - ▶ Which system gives us the best chance at a right result?
 - ▶ Objective with a subjective component
 - ▶ Pure objective
 - ▶ Pure subjective



CLIENT PROFITABILITY & COMPENSATION

- ▶ Distributing income using objective and subjective components
 - ▶ Sample income allocation
 - ▶ 95% objective based on 2 year rolling average client net by OA
 - ▶ 5% subjective component
 - ▶ Managing partner compensation fixed at \$75,000
 - ▶ Model scales to any size



DATA DRIVEN COMPENSATION



SAMPLE LAW FIRM, LLC - INCOME ALLOCATION FY 2014

<u>Last Name</u>	<u>OA Fee Credits</u>	<u>PR Cost OA</u>	<u>OH Cost OA</u>	<u>Client Net</u>	<u>T-Keeper Credit</u>	<u>Formula Credit</u>	<u>Net WO REC</u>	<u>Adjusted Total</u>	<u>Percent Total</u>
2013									
Partner 1	4,200,000	1,806,000	1,134,000	1,260,000	112,000	1,372,000			
Partner 2	1,900,000	817,000	513,000	570,000	144,000	714,000			
Partner 3	750,000	322,500	202,500	225,000	144,000	369,000			
Partner 4 etc.	350,000	150,500	94,500	105,000	160,000	265,000			
2014									
Partner 1	3,500,000	1,505,000	945,000	1,050,000	112,000	1,162,000			
Partner 2	1,600,000	688,000	432,000	480,000	144,000	624,000			
Partner 3	900,000	387,000	243,000	270,000	144,000	414,000			
Partner 4 etc.	375,000	161,250	101,250	112,500	160,000	272,500			
2 Year Total									
Partner 1	7,700,000	3,311,000	2,079,000	2,310,000	224,000	2,534,000			
Partner 2	3,500,000	1,505,000	945,000	1,050,000	288,000	1,338,000			
Partner 3	1,650,000	709,500	445,500	495,000	288,000	783,000			
Partner 4 etc.	725,000	311,750	195,750	217,500	320,000	537,500			
Average									
Partner 1	3,850,000	1,655,500	1,039,500	1,155,000	112,000	1,267,000	(40,000)	1,227,000	49%
Partner 2	1,750,000	752,500	472,500	525,000	144,000	669,000	(20,000)	649,000	26%
Partner 3	825,000	354,750	222,750	247,500	144,000	391,500	(15,000)	376,500	15%
Partner 4 etc.	362,500	155,875	97,875	108,750	160,000	268,750	(2,000)	266,750	11%
						2,596,250	(77,000)	2,519,250	100%

Cash Net Income Net	2,200,000
Less Minimum Compensation	
Less managing partner comp	75,000
Distributable Income	2,125,000
Percent objective	95%
Percent subjective	5%
Amount objective	2,018,750
Amount subjective	106,250
	2,125,000
Total income to allocate	2,200,000

Income Allocation 2014							
Member	Objective	Subjective	Minimum	Other	Total	% CNI *	% CNI **
Partner 1	983,232	42,500		75,000	1,100,732	84%	80%
Partner 2	520,063	32,500			552,563	85%	80%
Partner 3	301,701	20,000			321,701	85%	80%
Partner 4 etc.	213,755	11,250		-	225,005	84%	80%
	2,018,750	106,250	-	75,000	2,200,000	84%	80%

Objective	2,018,750
Min Comp	-
MP Comp	75,000
Subjective	106,250
	2,200,000

* Excluding managing partner (MP) compensation

** Excludes all subjective and MP compensation

CLIENT PROFITABILITY & COMPENSATION

- ▶ Distributing income using objective and subjective components
 - ▶ Billed or Collected
 - ▶ AR Adjustment
 - ▶ Collections Adjustment
 - ▶ Matching considerations





**GETTING
STARTED**



CLIENT PROFITABILITY & COMPENSATION

- Fears & Resistance
 - Truth in the numbers
 - Compensation changes
 - Moving from subjective to objective





GETTING STARTED

CLIENT PROFITABILITY & COMPENSATION

- Challenges
 - Data and resources not always available
 - Financial systems not fully implemented
 - Analysis usually sought in hard times





OPPORTUNITIES

CLIENT PROFITABILITY & COMPENSATION

- Measurable results
- Productive partner retention
- Attract better laterals and improved likelihood of successful mergers
- Increased rates of change





CLIENT PROFITABILITY & COMPENSATION

- Large swings in compensation from one year to the next
- Splitting origination credit
- Incentives for working with other partners
- Adjusting points of ownership





OPPORTUNITIES & CONCERNS

CLIENT PROFITABILITY & COMPENSATION

- Linking client profitability to compensation can best be described as a process that takes time to mature.
- Partners will come to understand that changes to their pricing, staffing and management approach may be necessary.
- Over time contribution to profit = market pay



COST EFFICIENCY

- ▶ **COST SIDE
MEASUREMENTS AND
BENCHMARKS**
- ▶ Approach and Tools
 - ▶ It is about getting value for your spend
 - ▶ Cost solutions or Revenue solutions

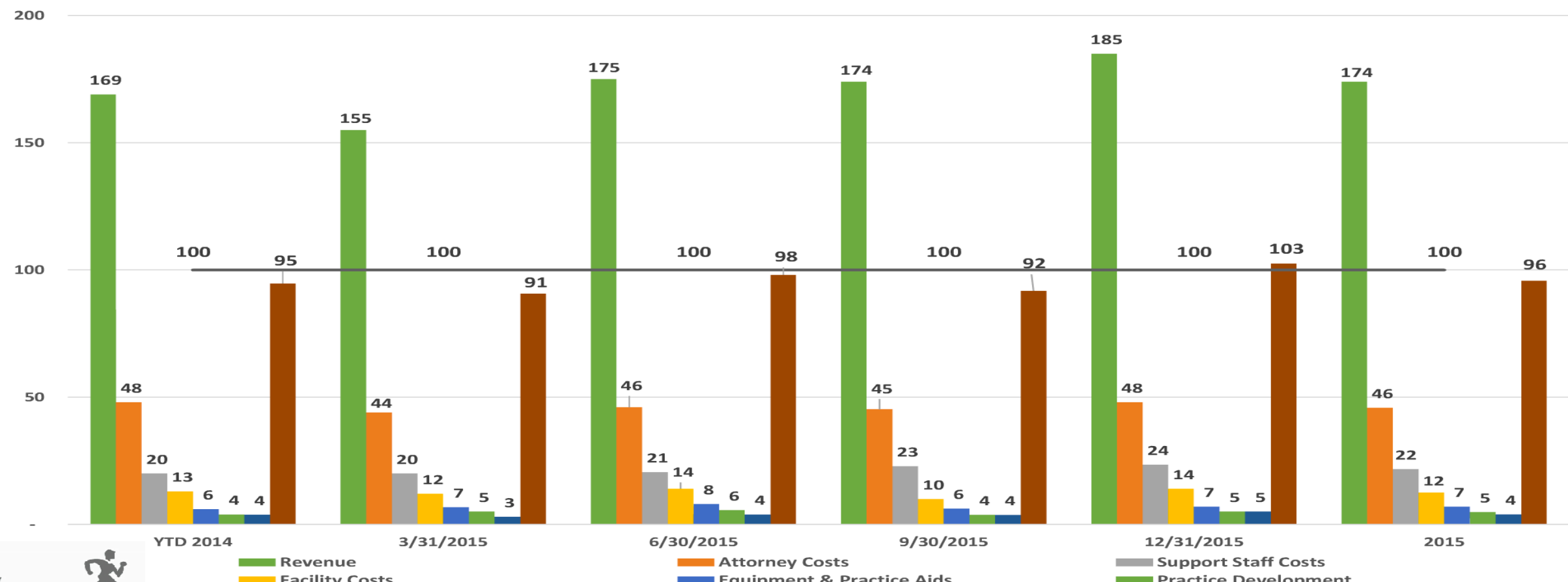
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COST EFFICIENCY



Sample High Volume Lower Billing Rate Firm, LLP
Historical Cost Per Hour by Quarter - 2015



COST EFFICIENCY



CLIENT/TIMEKEEPER- NET INCOME REPORT INCLUDING PARTNER PR COSTS SAMPLE FIRM, LLC

PERIOD: January 1, 2014 THROUGH December 31, 2014

-----CLIENT TOTALS-----										
	WA Initials	Hours Relieved	Billed Amount	Payroll Cost- HR	Payroll Cost AMT	OH Cost HR	OH Cost AMT	Client Net Income	OA Share Client Net Income	WA Profit Percent
Sample Client	XXX	1	\$0	\$97.60	\$61	\$149.28	\$93	(\$154)	(\$154)	#Div/0!
Sample Client	XXX	0	\$63	\$97.60	\$30	\$149.28	\$47	(\$14)	(\$3)	-21.60%
Sample Client	XXX	0	\$0	\$97.60	\$20	\$149.28	\$31	(\$51)	(\$51)	#Div/0!
Sample Client	XXX	23	\$3,985	\$97.60	\$2,223	\$149.28	\$3,400	(\$1,638)	(\$409)	-41.09%
Sample Client	XXX	1	\$53	\$97.60	\$81	\$149.28	\$124	(\$153)	(\$38)	-289.12%
Sample Client	XXX	1	\$238	\$97.60	\$91	\$149.28	\$140	\$6	\$1	2.72%
Sample Client	XXX	0	\$53	\$97.60	\$20	\$149.28	\$31	\$1	\$0	2.72%
Sample Client	XXX	0	\$55	\$97.60	\$30	\$149.28	\$47	(\$22)	(\$18)	-38.97%
WA Total		26	\$4,447		\$2,558		\$3,912	(\$2,023)	(\$673)	-45.49%
Sample Client	XXX	58	\$8,868	\$80.00	\$4,626	\$103.83	\$6,004	(\$1,761)	(\$176)	-19.86%
Sample Client	XXX	9	\$1,589	\$80.00	\$716	\$103.83	\$929	(\$55)	(\$11)	-3.48%
WA Total		67	\$10,457		\$5,341		\$6,932	(\$1,816)	(\$187)	-17.37%
Sample Client	XXX	26	\$4,863	\$92.08	\$2,384	\$14.25	\$369	\$2,110	\$2,110	43.38%
Sample Client	XXX	10	\$1,881	\$92.08	\$948	\$14.25	\$147	\$787	\$708	41.81%
Sample Client	XXX	32	\$5,727	\$92.08	\$2,988	\$14.25	\$462	\$2,277	\$1,936	39.76%
Sample Client	XXX	9	\$2,191	\$92.08	\$795	\$14.25	\$123	\$1,273	\$1,273	58.10%
WA Total		77	\$14,663		\$7,115		\$1,101	\$6,447	\$6,026	43.97%
Sample Client	XXX	128	\$35,682	\$80.00	\$10,225	\$62.22	\$7,953	\$17,504	\$3,501	49.06%
WA Total		128	\$35,682		\$10,225		\$7,953	\$17,504	\$3,501	49.06%



COST EFFICIENCY



TIMEKEEPER PR COST PER HOUR REPORT SAMPLE LAW FIRM, LLC FISCAL 2014 STANDARD AND ACTUAL

First Name	Last Name	Payroll and Benefits	Billable Hours-YTD	Adjusted Billable Hours(AS)	Hourly OA PR Cost	Total OA OH Cost	Hourly OA OH Cost
<u>Associate</u>							
First	Last	\$124,541	1731	1731	\$71.95	\$98,957	\$57.17
First	Last	\$120,984	1644	1644	\$73.59	\$92,491	\$56.26
First	Last	\$35,474	443	443	\$80.08	\$22,496	\$50.78
First	Last	\$91,805	2073	2073	\$44.29	\$97,168	\$46.87
First	Last	\$95,871	2119	2119	\$45.24	\$90,910	\$42.90
First	Last	\$24,751	407	407	\$60.81	\$19,927	\$48.96
First	Last	\$27,872	581	581	\$47.97	\$9,318	\$16.04
First	Last	\$32,407	538	538	\$60.24	\$1,365	\$2.54
First	Last	\$126,575	2187	2187	\$57.88	\$96,247	\$44.01
First	Last	\$6,861	73	73	\$93.99	\$8,818	\$120.79
First	Last	\$19,264	274	274	\$70.31	\$24,980	\$91.17
<u>Associate-Term</u>							
First	Last	\$102,480	2000	1995	\$51.38	\$60,111	\$30.14
<u>Equity Partner</u>							
First	Last	\$0	1892	1892	\$0.00	\$150,615	\$79.61
First	Last	\$0	2142	2142	\$0.00	\$170,142	\$79.43
First	Last	\$0	1623	1623	\$0.00	\$159,701	\$98.40
First	Last	\$0	2250	2250	\$0.00	\$150,084	\$66.70
First	Last	\$0	1312	1312	\$0.00	\$91,177	\$69.50

COST EFFICIENCY



TIMEKEEPER PROFITABILITY REPORT

Sample Law Firm, LLC

First

Last

TIMEKEEPER COLLECTIONS

176

Timekeeper Number	Last Name	First Name	Client Number	Client Name	Amount Collected	Percent of Total
176	Last	First		Client Name	\$10,920	3.39%
	Last	First		Client Name	\$66,724	20.71%
	Last	First		Client Name	\$103,979	32.27%
	Last	First		Client Name	\$107,848	33.47%
	Last	First		Client Name	\$9,656	3.00%
	Last	First		Client Name	\$19,256	5.98%
	Last	First		Client Name	\$631	0.20%
	Last	First		Client Name	\$932	0.29%
	Last	First		Client Name	\$2,300	0.71%
Summary for 'Timekeeper Number' = 176 (9 detail records)						
Sum					\$322,246	

COST EFFICIENCY



TIMEKEEPER PROFITABILITY REPORT

Sample Law Firm, LLC

First

Last

SECRETARIAL AND FILE CLERK ALLOCATION

Employee Receiving Allocation:	Employee Number Last Name	PR Cost	Percent to Allocate	Salary to Allocate
Attorney				
	9046 Last	\$61,597.80	50%	\$30,798.90
	9063 Last	\$4,553.04	20%	\$910.61
Summary for 'Employee Receiving Allocation' = Attorney (2 detail records)				
Sum				\$31,709.51

ALLOCATED GENERAL OVERHEAD

176	Last	First
Expense Type		Amount
Unallocated Compensation:		\$11,374.84
Office Operations Overhead:		\$27,644.48
Facilities:		\$22,631.47
Professional Expense:		\$3,669.74
Attorney Travel:		\$4,676.43
Other Expenses:		\$13,589.05
Northshore Expenses:		\$6,412.53
Non Deductable Expenses:		(\$46.39)
Other Income:		(\$9,584.49)
Total Overhead:		\$80,367.66

TIMEKEEPER PROFITABILITY

Total Collections	\$322,246
Secretarial/SFC Alloc.	\$31,710
Allocated Gen'l OH	\$80,368
TIMEKEEPER PROFITABILITY BEFORE COMPENSATION AND BENEFITS	\$210,169
FISCAL YTD COMP	\$259,000

STAFFING EFFICIENCY

- ▶ **WHAT DOES THIS MEAN AND HOW CAN IT BE USED TO YOUR ADVANTAGE?**
- ▶ Litigation Metrics
 - ▶ Timekeepers per file
 - ▶ Outperforming your competitors
 - ▶ Stronger case for rate increases



STAFFING EFFICIENCY



2015 CLM Litigation Management Study General Report March 2015

<i>That they understand what it takes to serve our policyholders; an understanding of the tri-partite relationship</i>	<i>That we would their biggest client / Indicate where we would fit into their client base</i>	<i>Demonstrate their ability to drive down our average case life / We do it faster</i>
<i>Client references / Referral and recommendations from others</i>	<i>Demonstrated willingness to try the right cases, difficult cases, any case; A willingness to talk about cases they've lost</i>	<i>That the Firm is redesigning their base compensation model on something other than billable hour / Willingness to work with AFAs</i>
<i>Use of technology as a tool to obtain successful results</i>	<i>Hyper-efficiency (tell me how); How they Staff Cases</i>	<i>Expense to settlement ratios</i>

One way for firms to align with this list of topics that would generate executive interest, is to include in the Firm's value an overview of the critical metrics that many of their buyers look at as well. Meetings with current and prospective clients might include a presentation of the following metrics:

Average Age of Open Files	Average Age of Closed Files	Average Legal Expenses Per Case by Type of Case
Number of timekeepers per matter	Ratio of partners to associates to paralegals on cases	Caseloads by attorney
Invoice Counts	% of time in each phase of case	Average invoice adjustment rates

Metrics That Executives Wish They Had – We have believed for some time that law firms vastly underestimate their opportunity to participate in, and in fact to help lead, the conversation about performance and metrics. Provided that firms are speaking about performance indicators that matter to a claims or litigation program, we believe firms have an opportunity to contribute heavily in this area.

A quick review of the metrics that participants wish they had access to, which they wish they could measure, and currently cannot obtain, reinforces this belief:

2015 CLM Litigation Management Study General Report March 2015

Metrics That Executives Wish They Had Access To, That They Currently Cannot Obtain		
<i>Average days open / cycle time (multiple)</i>	<i>Average loss cost by type of loss</i>	<i>ROI (i.e., dollars spent in relation to improved outcome) (multiple)</i>
<i>Detailed resolution data</i>	<i>Averages paid by line of business by attorney</i>	<i>Actual division of labor by the law firm</i>
<i>Type of injury</i>	<i>Disposition by life cycle points</i>	<i>Spend to indemnity on a more granular level (firm, state, LOB)</i>
<i>Comparative costs between firms for like-activities</i>	<i>Final disposition amount vs. counsel's initial evaluation</i>	<i>Budgeted to actual expenses</i>
<i>Success rate of motions per firm</i>	<i>Success rate of specific matters</i>	<i>Too many to name (multiple)</i>
<i>Analysis of % of ABA activity and task codes billed by firm</i>	<i>ROI for experts at given indemnity segments</i>	<i>Average hours by timekeepers on matters</i>
<i>Impact on Indemnity</i>	<i>Relationship between cost and indemnity</i>	<i>Cost to Indemnity</i>

STAFFING EFFICIENCY



CLIENT NET INCOME REPORT INCLUDING PARTNER PR COSTS SAMPLE LAW FIRM, LLC

PERIOD: January 1, 2014 THROUGH December 31, 2014

-----CLIENT TOTALS-----								ORIGINATING ATTORNEY(OA) SHARE OF CLEINT TOTALS			
WA Initials	Hours Relieved	Billed Amount	Payroll Cost- HR	Payroll Cost AMT	OH Cost HR	OH Cost AMT	Client Net Income	OA Share Fee Credits	OA Share Payroll Costs	OA Share Overhead Costs	OA Share Client Net Income
Sample Client								Originating Attorney(OA) Percent:		100.00%	
WA Initials	Hours Relieved	Billed Amount	Payroll Cost- HR	Payroll Cost AMT	OH Cost HR	OH Cost AMT	Client Net Income	OA Share Fee Credits	OA Share Payroll Costs	OA Share Overhead Costs	OA Share Client Net Income
XXX	1.4	\$274	\$80.00	\$108	\$74.27	\$100	\$66	\$274	\$108	\$100	\$66
XXX	5.8	\$589	\$49.40	\$288	\$21.45	\$125	\$176	\$589	\$288	\$125	\$176
XXX	0.4	\$40	\$48.24	\$20	\$12.20	\$5	\$15	\$40	\$20	\$5	\$15
XXX	6.0	\$681	\$73.59	\$444	\$56.26	\$339	(\$102)	\$681	\$444	\$339	(\$102)
XXX	0.2	\$0	\$97.60	\$20	\$149.28	\$31	(\$51)	\$0	\$20	\$31	(\$51)
XXX	48.5	\$9,834	\$80.00	\$3,877	\$57.34	\$2,779	\$3,178	\$9,834	\$3,877	\$2,779	\$3,178
XXX	12.3	\$2,259	\$83.00	\$1,019	\$28.36	\$348	\$893	\$2,259	\$1,019	\$348	\$893
Client Total	74.568	\$13,678	\$77.47	\$5,776	\$50.00	\$3,728	\$4,175	\$13,678	\$5,776	\$3,728	\$4,175
Sample Client								Originating Attorney(OA) Percent:		20.00%	
WA Initials	Hours Relieved	Billed Amount	Payroll Cost- HR	Payroll Cost AMT	OH Cost HR	OH Cost AMT	Client Net Income	OA Share Fee Credits	OA Share Payroll Costs	OA Share Overhead Costs	OA Share Client Net Income
XXX	13.9	\$1,263	\$48.24	\$672	\$9.25	\$129	\$462	\$253	\$134	\$26	\$92
XXX	143.8	\$13,089	\$49.40	\$7,106	\$21.45	\$3,086	\$2,898	\$2,618	\$1,421	\$617	\$580
XXX	84.2	\$6,729	\$48.24	\$4,064	\$12.20	\$1,027	\$1,638	\$1,346	\$813	\$205	\$328
XXX	11.3	\$1,611	\$47.97	\$544	\$16.04	\$182	\$885	\$322	\$109	\$36	\$177
XXX	5.9	\$842	\$71.95	\$427	\$57.17	\$339	\$77	\$168	\$85	\$68	\$15
XXX	49.9	\$7,145	\$71.43	\$3,566	\$53.34	\$2,663	\$917	\$1,429	\$713	\$533	\$183
XXX	167.1	\$27,260	\$80.00	\$13,370	\$57.34	\$9,583	\$4,307	\$5,452	\$2,674	\$1,917	\$861
Client Total	476.32	\$57,940	\$62.45	\$29,748	\$35.71	\$17,008	\$11,184	\$11,588	\$5,950	\$3,402	\$2,237

The background of the slide features three white, stylized humanoid figures positioned on a structure that resembles a ladder or a set of stairs. The figures are arranged in a line, receding into the distance. The figure on the left is in the foreground, leaning forward. The middle figure is slightly further back, and the one on the right is the furthest, partially obscured. The structure they are on has horizontal rungs and vertical supports, creating a sense of depth and perspective. The overall image is in grayscale, with the figures and structure in white against a light gray background.

RETHINKING ASSOCIATE COMPENSATION

HOW SHOULD WE PAY ASSOCIATES?

- ? *What should you do when market pay and associate contributions are not aligned?*
- ? *Is compensation an incentive after a certain point?*
- ? *Should associate base salary contain more base pay or more bonus?*



BONUS

- ▶ **Going beyond the billable hour to determine compensation:**
 - 1. PROFITABILITY**
 - 2. ORIGINATIONS**
 - 3. TRAINING**
 - 4. LEVERAGING**
 - 5. RECRUITING**



COMPENSATING FOR PROFITABILITY



TIMEKEEPER PROFITABILITY REPORT

Data Driven Law Firm, LLC

Associate 3

TIMEKEEPER COLLECTIONS

9

Timekeeper Number	Last Name	First Name	Client Number	Client Name	Amount Collected	Percent of Total	Average Rate	Hours Collected
9								
	3	Associate	200	XYZ Engineering	\$85,000.00	25.76%	\$195	435.90
	3	Associate	300	ABC Contracting	\$60,000.00	18.18%	\$195	307.69
	3	Associate	400	New Firm Construction	\$75,000.00	22.73%	\$200	375.00
	3	Associate	500	123 Services	\$45,000.00	13.64%	\$210	214.29
	3	Associate	600	456 Equipment	\$65,000.00	19.70%	\$190	342.11
Summary for 'Timekeeper Number' = 9 (5 detail records)								
Sum					\$330,000.00			1674.98

SECRETARIAL AND FILE CLERK ALLOCATION

Employee Receiving Allocation	Employee Number	Last Name	PR Cost	Percent to Allocate	Salary to Allocate
A3					
	6	Secretary	\$67,580.00	33%	\$22,515.84
Summary for 'Employee Receiving Allocation' = A3 (1 detail record)					
Sum					\$22,515.84

ALLOCATED GENERAL OVERHEAD

9	3	Associate
Expense Type		Amount
Unallocated Timekeeper L-Comp		\$0.00
Administrative Payroll and Rel.		\$7,637.61
Facilities		\$15,699.54
Equipment and Practice Aids		\$2,545.87
Practice Development		\$7,213.30
General and Administrative		\$14,850.92
Other Income		(\$1,697.25)
Total Overhead		\$46,250.00

TIMEKEEPER PROFITABILITY

Total Collections	\$330,000
Secretarial/SFC Alloc.	\$22,516
Allocated Gen'l OH	\$46,250
TIMEKEEPER PROFITABILITY BEFORE COMPENSATION AND BENEFITS	\$261,234
Compensation and Benefits YTD:	\$111,600.00

PERIOD: January 1, 201X - December 31, 201X

COMPENSATING FOR ORIGINATIONS



Data Driven Law Firm, LLC

Client Net Income Report Including Standard Partner PR Costs

PERIOD: January 1, 201X - December 31, 201X

Associate 3

100 ABC Corp

2500 Breach of Contract

Originating Attorney(OA) Percent: 100.00%

-----Matter Totals-----							ORIGINATING ATTORNEY(OA) SHARE OF MATTER TOTALS					
WA Initials	Hours Relieved	Billed Amount	Payroll Cost- HR	Payroll Cost AMT	OH Cost HR	OH Cost AMT	Client Net Income	OA Share Fee Credits	OA Share Payroll Costs	OA Share Overhead Costs	OA Share Client Net Income	% Net Inc.
PL1	40	\$5,000	\$48.06	\$1,922	\$13.98	\$559	\$2,519	\$5,000	\$1,922	\$559	\$2,519	50.37%
IP 2	10	\$2,000	\$83.46	\$835	\$58.31	\$583	\$582	\$2,000	\$835	\$583	\$582	29.11%
EP	75	\$18,000	\$85.00	\$6,375	\$73.99	\$5,549	\$6,076	\$18,000	\$6,375	\$5,549	\$6,076	33.75%
A3	100	\$20,000	\$84.29	\$8,429	\$54.66	\$5,466	\$6,105	\$20,000	\$8,429	\$5,466	\$6,105	30.53%
A2	10	\$1,650	\$48.86	\$489	\$34.98	\$350	\$812	\$1,650	\$489	\$350	\$812	49.19%
A1	50	\$9,250	\$76.50	\$3,825	\$52.44	\$2,622	\$2,803	\$9,250	\$3,825	\$2,622	\$2,803	30.30%
Matter Total	285	\$55,900	\$76.75	\$21,874	\$53.09	\$15,129	\$18,896	\$55,900	\$21,874	\$15,129	\$18,896	33.80%
Client Total	285	\$55,900	\$71.03	\$21,874	\$48.06	\$15,129	\$18,896	\$55,900	\$21,874	\$15,129	\$18,896	33.80%
OA Totals	285	\$55,900	\$71.03	\$21,874	\$48.06	\$15,129	\$18,896	\$55,900	\$21,874	\$15,129	\$18,896	33.80%

COMPENSATING FOR TRAINING

		INCENTIVES FOR TRAINING						
		ALLOCATION OF TRAINING PROFITS FOR BONUS CONSIDERATION						
		A1	A2	A3	IP1	EP	TC	PC
Associate 1		-	8,511	11,064	11,064	3,404	34,042	34,042
Associate 2		-	-	68,610	54,888	13,722	137,220	137,220
Associate 3		-	-	-	120,294	40,098	160,392	160,392
I-Partner 1		-	-	-	-	-	-	-
Partner		-	-	-	-	-	-	-
Total		-	8,511	79,674	186,246	57,224	331,654	331,654

	ALLOCATION OF TRAINING PROFITS FOR BONUS CONSIDERATION						
<u>Assumptions</u>	A1	A2	A3	IP1	EP	TC	PC-B
Bonus %		5%	5%	5%	5%	5%	
Bonus Dollars		426	3,984	9,312	2,861	16,583	315,071

NOTES:

Training, in part, is responsible for the profits attributable to those receiving training. TC (Training Credits) are allocated based on % of training hours (effort) applied to profit created. A bonus based on profits created would provide real incentives for training and support the compensation of those providing training. Training bonuses would phase out as timekeepers mature. Partners would likely be ineligible if they benefit directly from the profits created. PC - B = Profits created less bonus. Bonus assumption in this example is 5% of profits created. Actual bonus may vary by firm.

COMPENSATING FOR LEVERAGING



Data Driven Law Firm, LLC

Client Net Income Report Including Standard Partner PR Costs

PERIOD: January 1, 201X - December 31, 201X

Equity Partner

100 XYZ Engineering
2500 Breach of Contract

Originating Attorney(OA) Percent: 100.00%

-----Matter Totals-----							ORIGINATING ATTORNEY(OA) SHARE OF MATTER TOTALS					
WA Initials	Hours Relieved	Billed Amount	Payroll Cost- HR	Payroll Cost AMT	OH Cost HR	OH Cost AMT	Client Net Income	OA Share Fee Credits	OA Share Payroll Costs	OA Share Overhead Costs	OA Share Client Net Income	% Net Inc.
IP 2	10	\$2,000	\$83.46	\$835	\$54.55	\$545	\$620	\$2,000	\$835	\$545	\$620	30.99%
A2	10	\$1,650	\$48.86	\$489	\$33.14	\$331	\$830	\$1,650	\$489	\$331	\$830	50.30%
A1	50	\$9,250	\$76.50	\$3,825	\$49.68	\$2,484	\$2,941	\$9,250	\$3,825	\$2,484	\$2,941	31.79%
A3	100	\$20,000	\$84.29	\$8,429	\$50.99	\$5,099	\$6,472	\$20,000	\$8,429	\$5,099	\$6,472	32.36%
PL1	40	\$5,000	\$48.06	\$1,922	\$12.81	\$512	\$2,565	\$5,000	\$1,922	\$512	\$2,565	51.30%
EP	75	\$18,000	\$85.00	\$6,375	\$70.78	\$5,308	\$6,317	\$18,000	\$6,375	\$5,308	\$6,317	35.09%
Matter Total	285	\$55,900	\$76.75	\$21,874	\$50.11	\$14,281	\$19,745	\$55,900	\$21,874	\$14,281	\$19,745	35.32%
Client Total	285	\$55,900	\$71.03	\$21,874	\$45.32	\$14,281	\$19,745	\$55,900	\$21,874	\$14,281	\$19,745	35.32%
OA Totals	285	\$55,900	\$71.03	\$21,874	\$45.32	\$14,281	\$19,745	\$55,900	\$21,874	\$14,281	\$19,745	35.32%

COMPENSATING FOR LEVERAGING

Total Profits	\$19,745
Less:	
EP Profit	\$6,317
A3's Profit	<u>\$6,472</u>
Leverage profit (bonus base)	\$6,956
Bonus Percent	10%
Earned training and leverage bonus for this matter	\$696

COMPENSATING FOR RECRUITING

► RECRUITING:

1. Do we compensate for attracting laterals to the firm?
2. Lawyers with and without business
3. Longevity and progression
4. Flat bonus or share of profits?



RESULTS FOCUSED MARKETING



EXPAND THE DEFINITION OF MARKETING AND DECENTRALIZE

- ▶ Results based marketing and budget funding
 - ▶ Expand the definition of what is included in marketing
 - ▶ Allocation marketing costs at the client level
 - ▶ Develop a set of effectiveness measurements
 - ▶ Reward profitability



RESULTS FOCUSED MARKETING



MASTER MARKETING AND CLIENT DEVELOPMENT BUDGET - SECTION/GROUP/INDIVIDUAL

	TOTAL BUDGET		
	Revenue	% Earned	Total Budget
Prior Year Actual	-	1.50%	-
Current Year Plan	-	3.50%	-
Floor (by policy or based on plan)			-
Total Budget		5.00%	-

	% to Allocate	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4	TOTAL
	TBD	25%	15%	30%	30%	100%
<u>Meals and Entertainment</u>						
Existing Clients	0.00%	-	-	-	-	-
Target Clients	0.00%	-	-	-	-	-
Sub-total	0.00%	-	-	-	-	-
<u>Travel</u>						
Existing Clients	0.00%	-	-	-	-	-
Target Clients	0.00%	-	-	-	-	-
Sub-total	0.00%	-	-	-	-	-
<u>Conference and Event Fees</u>						
Bar and legal	0.00%	-	-	-	-	-
Industry/other	0.00%	-	-	-	-	-
Firm Sponsored	0.00%	-	-	-	-	-
	0.00%	-	-	-	-	-
<u>Content/Inbound and Other Marketing Support</u>						
Web Development/Consulting	0.00%	-	-	-	-	-
Search Engine Optimization (SEO)	0.00%	-	-	-	-	-
Social Media Support	0.00%	-	-	-	-	-
Production and distribution costs	0.00%	-	-	-	-	-
Graphics Support	0.00%	-	-	-	-	-
Editorial Support	0.00%	-	-	-	-	-
CRM Licensing Fees	0.00%	-	-	-	-	-
Research databases	0.00%	-	-	-	-	-
Paid advertising and promotion	0.00%	-	-	-	-	-
Sub-total	0.00%	-	-	-	-	-
<u>Consultants</u>						
Marketing	0.00%	-	-	-	-	-
Public Relations	0.00%	-	-	-	-	-
Advertising	0.00%	-	-	-	-	-
Research	0.00%	-	-	-	-	-
Social Media	0.00%	-	-	-	-	-
Sub-total	0.00%	-	-	-	-	-
<u>Staffing Costs</u>						
Marketing Director	0.00%	-	-	-	-	-
Marketing Support Personnel	0.00%	-	-	-	-	-
IT allocation	0.00%	-	-	-	-	-
Other	0.00%	-	-	-	-	-
Sub-total	0.00%	-	-	-	-	-
Plan totals	0.00%	-	-	-	-	-

BUDGET IS INFORMED BY FIRM LEVEL, SECTION, STRATEGIC GROUPS AND INDIVIDUAL BUDGETS

BUDGET IS FLEXIBLE AND CAN INCLUDE OTHER ITEMS NECESSARY TO ACHIEVE GOALS

RESULTS FOCUSED MARKETING



▶ HELPFUL ARTICLES

- ▶ [Metrics to Improve Law Firm Marketing Effectiveness](#)
- ▶ [Law Firm Marketing: Get the Whole Story](#)





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Thank You.