CHECKLIST

Law Firm KPIs to Measure Profitability

Some law firms (including many that are no longer in business) have resisted the idea of using key performance indicators to manage their businesses. But successful firms know that measuring profitability can lead to improved performance – and failing to measure may mean you don't notice issues until it's too late. There are an infinite number KPIs you can measure, of course, but you can't look at everything. The following indicators are among the most valuable to analyze financial results and make managerial decisions.

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Productivity KPIs

More billable hours won't always translate to more profit. In addition to billable hours, there are many other productivity-related KPIs you should monitor and manage to improve profitability at your firm.

To measure this:	*Look at this:*
Firm's leverage	☐ Ratio of FTE associates to partners ☐ Ratio of partners' hours to total billable hours by all time keepers ✓ ***Tip:*** *Split metrics above between equity and non-equity partners if applicable.*
Billable hours	☐ Ratio of billable hours to standard hours, for any or all of the following; attorney (associate, non-equity and equity), paralegal, practice area and office
Billable hours per legal assistant	☐ Ratio of total billable hours for all professionals to number of legal assistants ✓ ***Tip:*** *Benchmark by practice area or office if applicable.*
Administrative staffing levels	☐ Ratio of total number FTE's to the total number of FTE professionals
% of attorney time that is actually billed	☐ Ratio of fees billed to fees incurred
% of attorney time that is actually billed and collected	☐ Ratio of fees collected to fees incurred
Average daily fees generated	☐ Total billable value / Working days
Average daily fees billed	☐ Total fees billed/Working days
Average daily fees collected	☐ Total fees collected/Working days

Financial KPIs

The following data should be accumulated on a monthly and year-over-year comparative basis in total and/or by practice area to observe trends and compute ratios:

- Fees billed
- Fees collected
- Current AR/ WIP
- A/R and WIP over 90 (as $ and % of total)
- Rate discounts in $
- Billed fee write-downs in $
- A/R write-offs in $

In addition to the metrics above, here are a few other financial key performance indicators to consider.

To measure this:	Look at this:
Profit available to partners as a percentage of revenue	☐ Partner profit pool divided by firm revenue, presented as a percentage
Length of time it takes to bill the work performed	☐ Number of calendar days unbilled WIP
Length of time it takes to collect on invoices once they are rendered	☐ Number of calendar days outstanding AR
Total exposure by client matter or group	☐ Total number of calendar days invested (Sum of days in WIP and AR) ☐ Total $ WIP, AR, plus hard and soft costs per client matter or group ☐ Revenue per square foot by location ☐ Overhead expenses expressed as percentages of revenues
ROI/Utilization of space	☐ Revenue per square foot by location
Overhead factor	☐ Overhead expenses expressed as percentages of revenues
Net cost each partner must cover before any profits are generated	☐ Ratio of net expenses (total expenses minus billings of all of all non-partner billers) to number of Partner FTEs (both equity and non-equity)
Average cost recovery by matter	☐ Ratio of total amount of internal costs billed to clients divided by the total number of matters billed
Contingency WIP	☐ Ratio of Contingent based WIP to total WIP
Trends in overtime payroll	☐ Ratio of employee overtime hours or $ (for employees subject to overtime pay) to total employee hours or $ (for employees subject to overtime pay

Client-related KPIs

To get an overall picture of your client base, look at your top 50, 100 or all clients ranked by fees collected, fees billed, hours worked, and fees incurred compared to prior year.

In addition, consider the following client-related metrics.

To measure this:	Look at this:
Breadth of client relationship	☐ Number of matters per client ☐ Number of practice areas that support this client ☐ Number of professionals with time spent on matters connected to particular client
Average fee per client	☐ Ratio of total $ fees to total number of clients ☐ Ratio of the total $ new client fees to total number of new clients
Trends in client growth rate	☐ Ratio of the number of new clients (by practice area) to number of total active clients
Marketing efficiency	☐ Ratio of total marketing spend to total fees billed
Business development spend efficiency	☐ Ratio of business development spend to total fees billed ✓ ***Tip:** This may be more useful to benchmark by practice area, attorney or office.*

Contact

Steven A. Davis, CPA | Entrepreneurial Services Principal | (954) 713-7428 | sdavis@kaufmanrossin.com