



Financial Mechanics of a Legal Practice



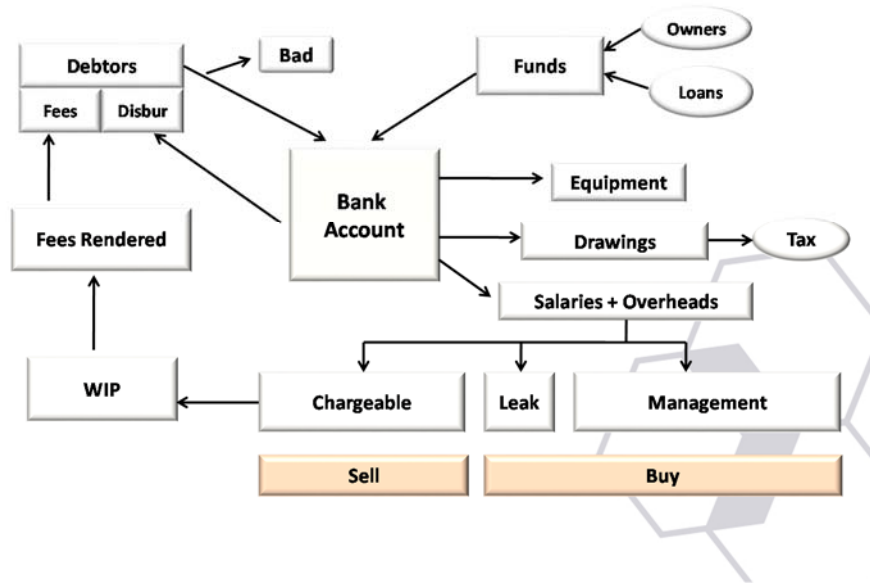


The Profit Drivers

$$\text{NPPP} = (1+L) \times \text{BR} \times \text{CH} \times \text{R} \times \text{M}$$

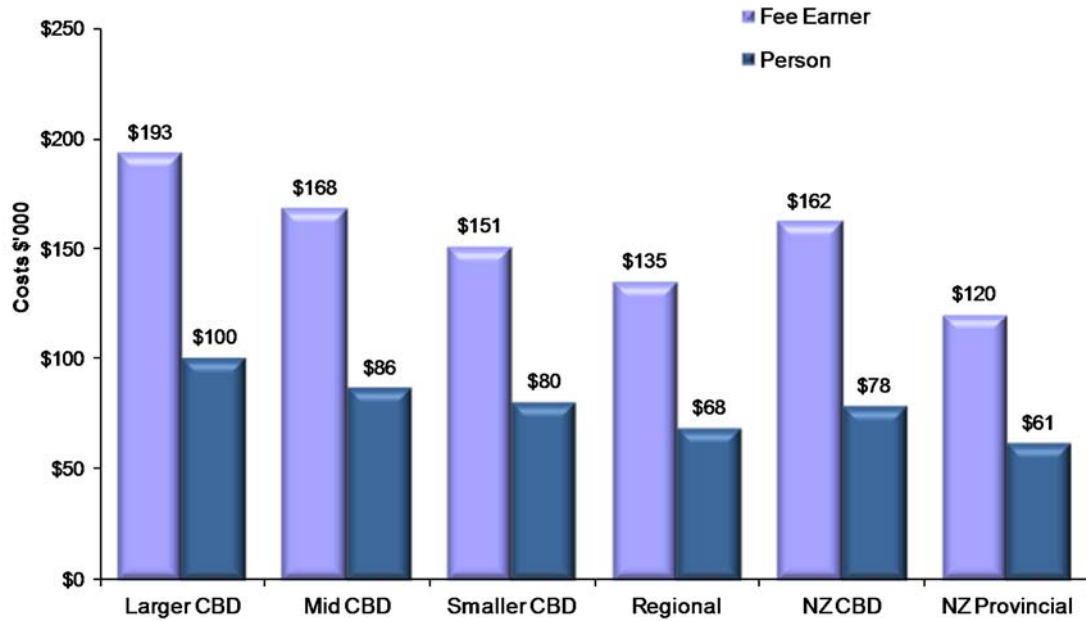
Where:

- NPPP = net profit per partner (bps)
- L = Leverage
- BR = blended billing rate
- CH = chargeable hours
- R = Realisation (conv. WIP to debtors)
- M = Profit Margin



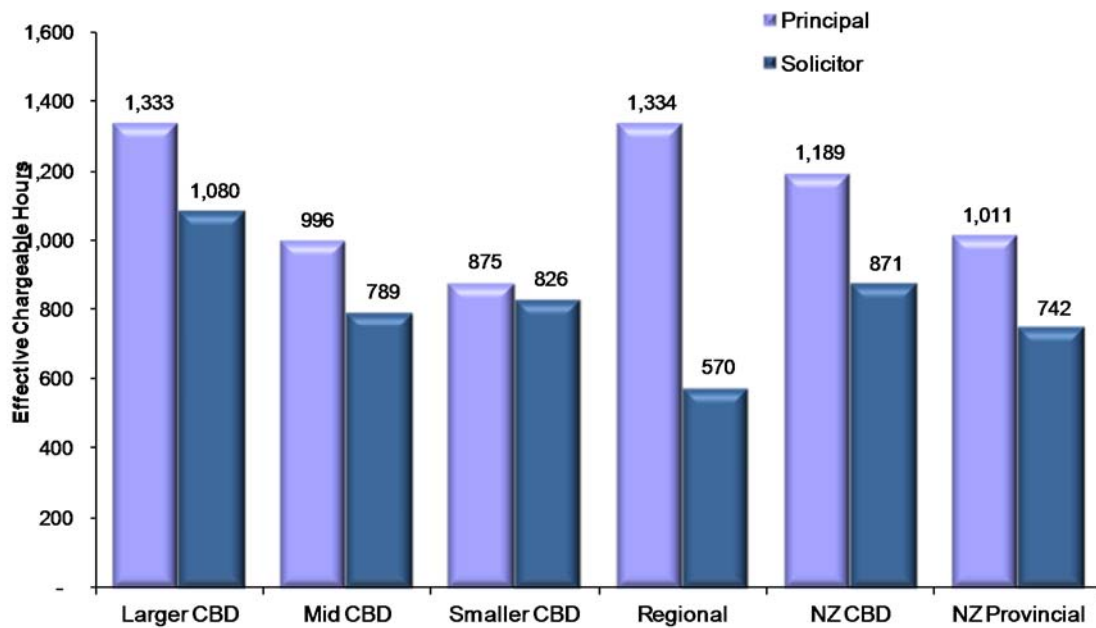
Cost Per Author and Per Person

Higher profit levels are achieved by practices that generate more fees per equity principal. Similarly these practices have higher cost structures. Factors to consider are: staffing levels, rent, leverage and other non-salary overheads

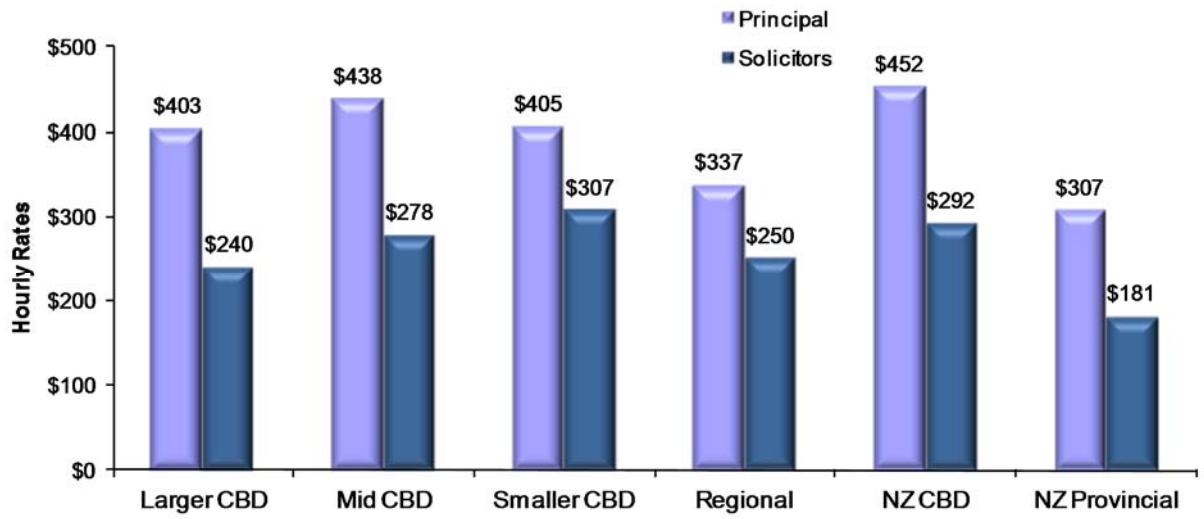


Effective Chargeable Hours

Strong correlation between profitability and hard work.

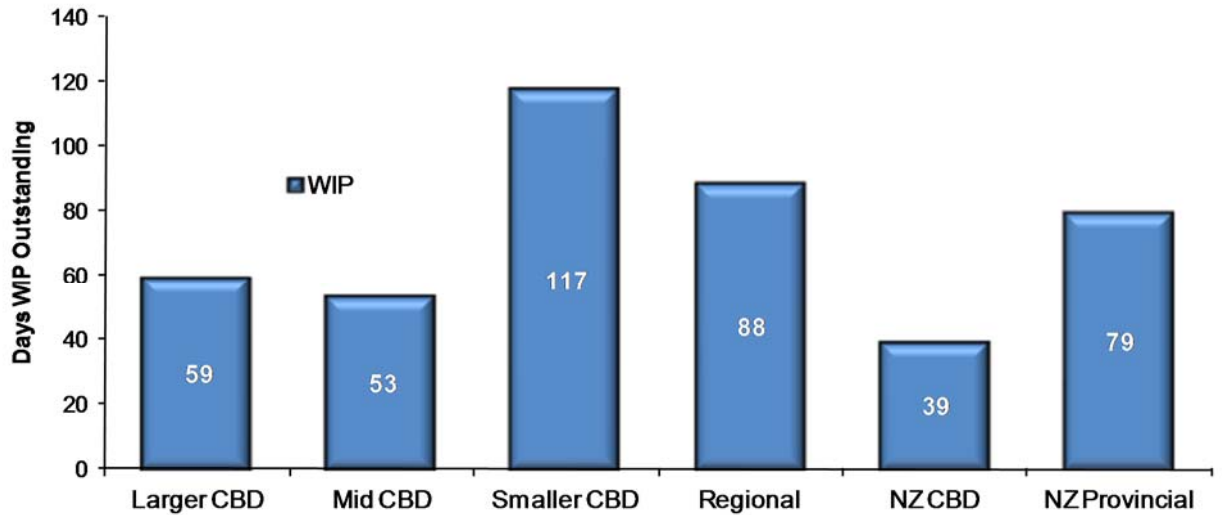


Charge Rates Per Author



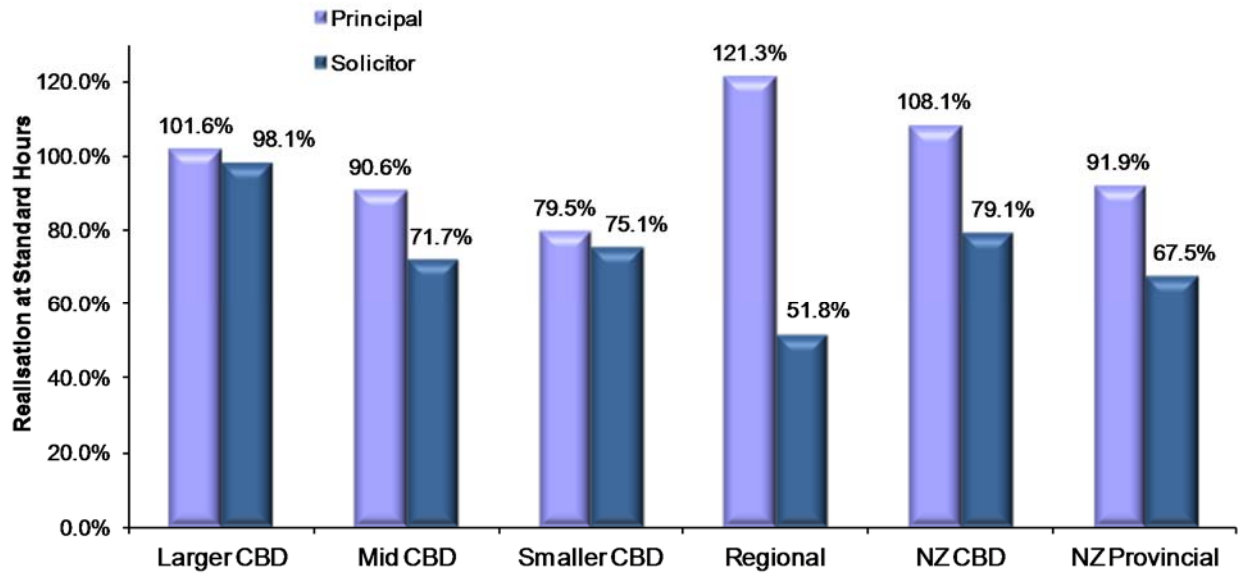
Days WIP

Number of day's production tied up as work in progress. Some variations may be due to the work types of the practice.



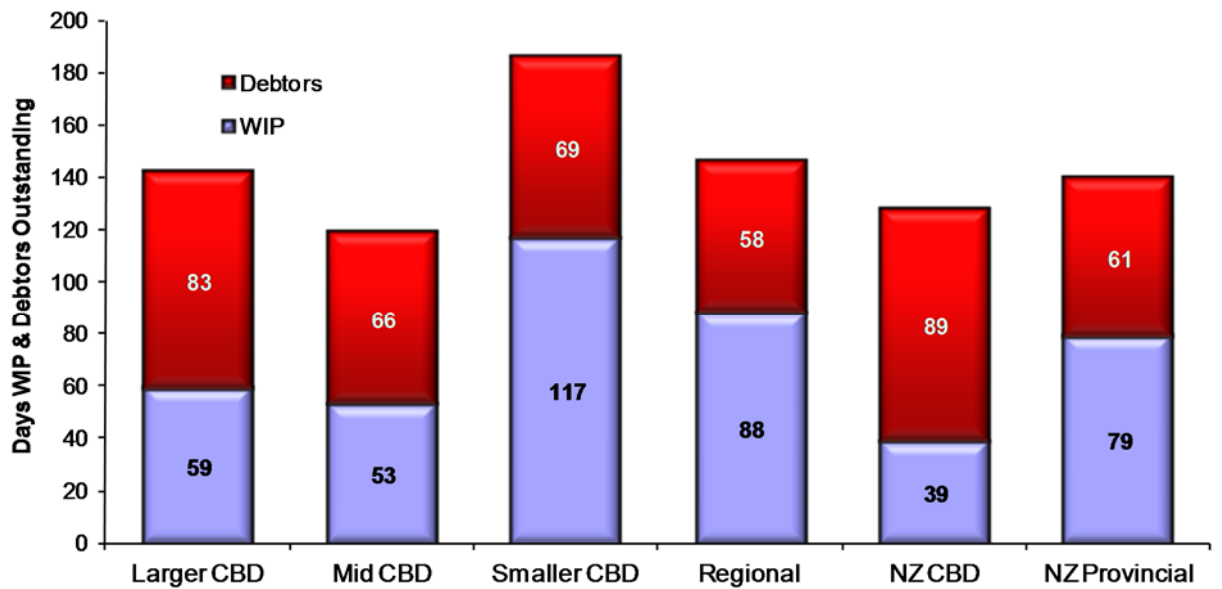
WIP Write-downs

Write-downs show the percentage reduction between the value of work done and WIP generated.



Days WIP & Debtors

Shows number of day's production tied up in both work in progress and debtors. Has been a trend toward increased debtors



The Nine Key Attributes

David Maister identified the following attributes as the best predictors of financial performance within professional services firms. His research showed that these key attributes explained over 50% of all variations in profit performance.

	Disagree			Agree	
1. Client satisfaction is a top priority at our firm	1	2	3	4	5
2. We have no room for those who put their personal agenda ahead of the interests of the client of the firm	1	2	3	4	5
3. Those who contribute most to the overall success of the firm are most highly rewarded	1	2	3	4	5
4. Management gets the best out of everybody in the office	1	2	3	4	5
5. Around here you are required, not just encouraged, to learn and develop new skills	1	2	3	4	5
6. We invest a significant amount of time in things that will pay off in the future	1	2	3	4	5
7. People within our office always treat each other with respect	1	2	3	4	5
8. The quality of supervision on client matters is uniformly high	1	2	3	4	5
9. The quality of professionals in our office is as high as can be expected	1	2	3	4	5

What are the initiatives and changes required to enable you and / or your team to realise its full potential?

1. Time utilisation

2. Improving fee earner performance – recording and billing more activity

3. Write-down levels

4. Billings – WIP

5. Collecting Outstanding Debtors

6. Other (eg. Human Resources / Training etc.)
