



# Profitability Insight<sup>©</sup>

BIGSQUARE



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## Standard Profitability Methodology

A Cash Basis methodology is utilized for the standard profitability model and is represented as follows: *current year collections less current year expenses equal Profits.*

The standard approach should match the firm's financial statements, and it assumes the relevant expenses in the current year were incurred to produce the current year revenue.

## Profitability Assumptions

All timekeepers are identified by Office, Practice, and Title and with their associated FTE.

Timekeepers FTE can be weighted similar to the table below.

Title	Weight
Partner	1.00
Consultant	1.00
Of Counsel	1.00
Associate	0.75
Staff Attorney	0.75
Patent Agent	0.75
Paralegal	0.35
Other Billable	0.20
Law Clerk	0.20



Standard Hours by Title are as follows and can be adjusted as needed depending upon the Firm's requirements:

Title	Standard Hour
Income Partner	1,700
Non-Income Partner	1,800
Consultant	1,700
Of Counsel	1,700
Associate	1,900
Staff Attorney	1,900
Patent Agent	1,900
Paralegal	1,600
Other Billable	1,250
Law Clerk	1,250

## **Profitability Terminology**

### Direct Costs

Any expense directly attributable and identifiable to a timekeeper such as compensation, bonus, payroll taxes, T&E. Direct cost also includes a Firm determine percentage of compensation as benefits.

### Indirect Costs

Any expense that is NOT directly attributable and identifiable to a timekeeper such as rent, marketing, Firm Admin, Legal Admin compensation.



Indirect Costs are separated into two buckets, Practice Group Indirect and Firm Indirect costs.

- a) Practice Group Indirect Cost – any indirect cost that is directly attributable and identifiable to a Practice group such as Legal Admin compensation and marketing.
- b) Firm Indirect Cost - any indirect cost that is NOT directly attributable and identifiable to a Practice group such as rent and Firm admin. This also includes management cost for management (Firm determined percentage of Chairman, President & General Counsel direct costs).

#### Collect Amount

Fee Revenue collected in the Fiscal year by timekeeper.

#### Cost Losses AR and WIP

Any cost AR or WIP write off/down directly attributable and identifiable to a timekeeper.

#### Net Amount

Collect Amount less (Cost Losses +Direct Cost +Total Indirect Cost)

### **Profitability Allocation**

The total expenses (net of cost recovery receipts) from the Income statement are extracted and grouped into one of three buckets:

- 1) Direct Cost
- 2) Practice Group Indirect Cost
- 3) Firm Indirect Cost

The allocation to each timekeeper is then done as follows:

- a) Direct cost is allocated directly to each timekeeper.



b) The Practice Group indirect is allocated to each timekeeper within the practice based on the PG weighted FTE by title. Timekeepers with the same title in the PG will have the same Practice Group Indirect cost allocation.

c) The Firm indirect cost is allocated to all timekeepers based on the Firm weighted FTE by Title. Timekeepers with the same title will have the same Firm Indirect cost allocation.

*Note: Full FTE gets a full allocation while part-time FTE gets partial allocation.*

Each timekeeper total cost is then computed as:

$$\text{Direct Cost} + \text{PG Indirect Cost} + \text{Firm Indirect Cost} = \text{Total Cost}$$

Three cost rates are then calculated for each timekeeper.

- 1) Actual Cost Rate = Total Cost divided by Actual Hours worked in fiscal year.
- 2) Standard Cost Rate = Total Cost divided by Standard hours by title.
- 3) Hybrid Cost Rate = Total Cost divided by Higher of Standard Hours or Actual Hours worked in a fiscal year.

## **Profitability Insights**

The Profitability model consists of the following vantage points:

- 1) Attorney insight – used for working and billing attorney based profitability and includes the impact of utilization.
- 2) Standard Client insight – used for matter based profitability and excludes the impact of utilization.
- 3) Hybrid Client insight – used for matter based profitability and excludes the impact of utilization.



In the Attorney view, the timekeeper Actual cost per hour is used to allocate cost to a matter. This cost is calculated as the timekeeper actual cost per hour times the actual hours worked on the matter by the timekeeper.

In the Client view, the timekeeper Standard cost per hour is used to allocate cost to a matter. This cost is calculated as the timekeeper Standard cost per hour times the actual hours worked on the matter by the timekeeper.

In the Hybrid Client view, the timekeeper Hybrid cost per hour is used to allocate cost to a matter. This cost is calculated as the timekeeper Hybrid cost per hour times the actual hours worked on the matter by the timekeeper.

### **Working Attorney Profitability**

Each Working attorney cost is made up of their actual Direct cost and their allocated Indirect cost and is used to determine their profitability as follows:

	Current year collections
<b>less:</b>	Cost Losses
	Direct Costs
	Indirect Costs – PG
	Indirect Costs – Firm
	_____
	Net Profit
	_____



## Billing Attorney Profitability

Each Billing attorney cost is the sum of the cost of the working attorneys that worked on the billing attorney matters.

Each working attorney cost allocated to a billing attorney is calculated as follows:

Timekeeper Actual cost per hour times the timekeeper actual hours worked on the billing attorney matter

### Billing Attorney Profitability:

	Current year collections
<b>less:</b>	Cost Losses
	Working Attorney cost (based on Actual Rates)
	_____
	Net Profit
	_____

## Client Profitability

Each Client cost is the sum of the cost for the working attorneys that worked on the client matters.

Each working attorney cost allocated to a client is calculated as follows:

Timekeeper Standard cost per hour times the timekeeper actual hours worked on the client matters

### Client Profitability:



Current year collections

**less:** Cost Losses

Working Attorney cost (based on STD rates or Hybrid Rates)

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Net Profit

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