Law Firm Economics

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Agenda

- Leverage
- Collections
- Overhead
- Lawyer Compensation Models
- Law Firm Structure
- Takeaways
Leverage

- Trade-offs, and benefits associated with those trade-offs, when legal tasks are pushed to their lowest cost labor source.
Collections

• The amount of money actually paid by a client for legal services rendered.
### Collections

<table>
<thead>
<tr>
<th>Attorney Level</th>
<th>Number of Hours</th>
<th>Charged Hourly Rate</th>
<th>Amount Billed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>10</td>
<td>$300</td>
<td>$3,000</td>
</tr>
<tr>
<td>Senior Associate</td>
<td>20</td>
<td>$225</td>
<td>$4,500</td>
</tr>
<tr>
<td>Associate</td>
<td>40</td>
<td>$175</td>
<td>$7,000</td>
</tr>
</tbody>
</table>

- Total amount billed is $14,500
- Client only pays $10,000
- The remaining $4,500 is “written-off”
- Actual hourly rate is much lower
Overhead

Overhead is an attorney’s operating costs.

• Rent, utilities
• Supplies
• Malpractice insurance
• Bar dues
• Staff, including associate attorneys
• Costs associated with having staff and associates
Overhead

• The yearly hour requirement is based predominantly on the overhead amount.

• What number of hours worked, at what actual billing rate, will cover the overhead and still provide for a profit?
Lawyer Compensation Models

- “Eat-what-you-kill” model
- Salary model
- Formula model
Law Firm Structures

- Solo-practitioner
- Small firm – pyramid model
Law Firm Structures

• Mid-size firm – multiple pyramids

• Corporation
Takeaways

• Ask about your law firm’s structure and how attorneys are paid.

• Know thyself – what type of firm and compensation model suits you?

• Understand who your client is: the partner!
Questions?

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