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6 KPIs Your Firm Should Keep Track of

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In, [Accounting 101 for Law Firms](#) we discussed how when firms are asked, “How do you want to define growth?” The leading response is always through [revenue](#).

That is great, right?! “Revenue.” We all love this word, it’s great a great way to track performance, but how do you actually track revenue? Is it as easy as simply counting the dollars that come through your door? We wish.

The first thing you need to do is start utilizing KPIs. Your key performance indicators will be your best friends and the figures you need in order to answer the question, “how do I track my firm’s revenue?” It is important to note that these indicators are merely that, indicators. You should use them as a guide and lean on [customized reports](#) to really gain valuable insight into the productivity and performance of your firm.

At the end of the day, your firm is a business, so although you have spent 10,000+ hours honing your craft as an attorney or legal professional, you still have to be able to wear that business hat to keep the lights on.

That may sound dreadful, but don’t let the idea of numbers discourage you! These metrics can be used to help you make real-time business decisions that are going to greatly impact the future of your firm.

Profit Margin

To jump right in, let’s talk about profit margins. That is how many cents on the dollar are you able to push into your pocket at the end of the day. If it is 35%, that means you get \$0.35 of every dollar at the end of the day. Your profit margin can be looked at as your net income divided by your revenue.

[cb_calculator name="Profit Margin" title=" "]

Average Rate Billed Per Hour

Next, think about how much your time is actually worth, or rather, your average rate billed per hour. This can be calculated over multiple time frames, but make sure the time frames you choose are always the same. So if you're looking at the total hours billed for the month, don't divide it by the total hours billed for the quarter. All of your time frames must match, otherwise, you're comparing apples to oranges. You can calculate this amount by dividing the total hours billed for whatever time period you're looking at, by the total dollars billed in that same period.

[cb_calculator name="AVG Rate Billed Per Hour" title=" " formula="Average Rate Billed Per Hour = Total Dollars Billed / Total Hours Billed"]

Collection Percentage

The next KPI is important: your collection percentage. You work hard week in and week out, and although you may know how many hours you billed each week, do you know how many of those hours you're actually getting paid on? It is easy to rattle off those initial billable numbers, but the numbers you have to dig for below the surface are much more valuable. So when you're thinking about your collection percentage, take the total cash you have collected in a time period and divide it by the total dollar amount billed in that time period.

[cb_calculator name="Collection %" title=" "]

Operating Expense Per Timekeeper

Some more advanced ratios include things like how much do you spend per timekeeper at your firm? This is very important to look at. All you need to do here is take your total operating expense that you would get from your Profit and Loss statement and divide it by the number of timekeepers at your firm. This is going to give you a really great insight into how much it costs to actually run your business.

[cb_calculator name="Operating Expense Per Timekeeper" title=" "]

Profitability by Client

Where it gets interesting is where you can use the figure you calculated from the operating expense per timekeeper to determine if you and your team are working on profitable clients. Profitability by client is huge because as you start to unpack this, you can quickly determine which of your clients truly brings your firm more revenue and which are just eating up your time. Everyone has a few clients where it costs you more to serve them, even though you may have higher billing rates. The problem with this is that most firms do not pinpoint these clients until the work is already done. So, to determine your profitability by client, simply take the fees generated by the client and subtract that estimated cost per timekeeper per hour worked.

[cb_calculator name="Profitability by Client" title=" "]

Utilization Rate

Lastly, are you hitting your targets? Your firm's utilization is important because the more informed you can be about your productivity, the easier it will be to make decisions on matters like staff expansion. Is an extra timekeeper necessary for your growth or can you manage by simply shifting staff around? How do you determine what the right thing to do is? To calculate this utilization percentage, divide the total billable hours of a timekeeper by their total working hours. This percent may fluctuate throughout the year based on caseload, so it is important to keep your external factors in mind when making considerations for your staff.

[cb_calculator name="Utilization" title=" "]

There are many KPIs and reports you can generate and use to monitor and track your firm's revenue. You don't have to be a finance buff or accounting expert to do this math, and once you start incorporating it into your weekly or monthly routine, it will become second nature! Until that time, we have tried to make it as easy as possible for you to get a handle on your numbers, so we have created a KPI calculator that you can access here to get you started!

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