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Law Firm Structure: Using Departments to Analyze Profitability by Practice Area and Delegate Tasks

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With the continuing change in the landscape for law firms, it is increasingly important for firms to understand where their most profitable areas of practice lie. Gone are the days of multi-generational client loyalty. As a result, firms must hone their skills and identify the areas that are most beneficial in adding to the bottom line. Regardless of how altruistic your firm's core values are, without a profitable business, you will be unable to support your clients or your employees.

There are multiple metrics a firm can monitor to ensure financial success. Having [good billing protocols](#) is a good place to start. Once those procedures are functioning well, you can accurately identify which areas of practice are most beneficial to your firm. Knowing where you should be focusing your assets (time) allows you to strategically make decisions on what cases to accept and what cases should be declined or referred out.

Identify Your Practice Areas

Begin this process by identifying the practice areas in which your firm most often practices, and ensure they are entered into your billing system. Using a billing system that allows you to identify practice areas and run reports quickly and efficiently is an important piece of this process. The identification of practice area should be a part of your [client intake](#) protocol to ensure that cases are properly identified at the outset.

Identify Departments

Depending on firm size, there are different ways to go about the identification of departments. If your firm typically has specific attorneys and staff working in each practice area, it is intuitive to define your departments by practice area. You may have a real estate department, a civil litigation department, a criminal litigation department, and a corporate department, for example.

If most of your attorneys are working across multiple areas of practice, you may want to define your departments by supervising attorney rather than by practice area. This will allow you to determine whether profitability is impacted by practice area or by managing attorney, for example.

Start Monitoring Your Metrics

Once you have identified the practice areas you want to track and how you would like to divide your billable timekeepers (attorneys and paralegals) into departments, you can start monitoring the revenue you are seeing from each practice area and department. By putting your clients into buckets of practice areas, you can:

1. Identify the average Client Acquisition Costs (CAC) for each practice area;
2. Identify the average Client Lifetime Value (LTV) for each practice area;
3. Determine the net revenue for each practice area;
4. Determine the overall profitability for each department.

Client Acquisition Costs (CAC)

The cost to acquire a client may be different depending on the practice area. Your physical injury cases may come to you through television advertising, which is going to have a different cost than your probate clients, who may come to you through word of mouth. By identifying your [client acquisition costs](#) by practice area, you can get a more accurate evaluation of the true profitability of each case type.

Client Lifetime Value (LTV)

Likewise, the [lifetime value](#) of a matter is going to be different by practice area. As is the case with acquisition costs, by identifying your average lifetime value by practice area, you can drill down even further on profitability by case type.

Net Revenue By Practice Area

Once you have calculated the average acquisition cost and lifetime value for your cases by practice area, you can determine an overall average net revenue for each area. This does not take into account the costs of your timekeepers or firm overhead – this is strictly net revenue after taking

into account the cost to acquire the matter. For example:

Net Revenue by Practice Area			
Practice Area	Average Acquisition Cost	Average Lifetime Value	Net Revenue
Civil Litigation	\$ 1,500.00	\$ 12,000.00	\$ 10,500.00
Corporate Contracts	\$ 750.00	\$ 1,500.00	\$ 750.00
Criminal Defense	\$ 750.00	\$ 5,000.00	\$ 4,250.00
Insurance Defense	\$ 500.00	\$ 6,000.00	\$ 5,500.00
Personal Injury	\$ 5,000.00	\$ 30,000.00	\$ 25,000.00
Probate	\$ 250.00	\$ 1,500.00	\$ 1,250.00

Net Revenue By Department

Once you have calculated the net revenue by practice area, you can break things down even further to determine your revenue by department. In this calculation, you add in the direct costs of your timekeepers in each department.

To begin, you need to have calculated the [hourly cost for each of your timekeepers](#). By knowing what it costs for each of your timekeepers to work one hour, you can calculate their costs in each practice area by running a report showing total hours billed by practice area or department. In the example below, the firm's departments are identified by practice area:

Net Revenue by Department			
Civil Litigation			
Timekeeper	Average Hours	Break Even Rate	Total Cost
Timekeeper A	10.00	\$ 220.00	\$ 2,200.00
Timekeeper B	6.00	\$ 185.00	\$ 1,110.00
Timekeeper C	5.50	\$ 175.00	\$ 962.50
Total Cost			\$ 4,272.50
Area Net Revenue			\$ 10,500.00
Dept Net Revenue			\$ 6,227.50

Total average direct cost for timekeepers to complete matters in Civil Litigation Dept

Average revenue on Civil Litigation Dept matters after deduction cost of timekeepers

Using What You Have Learned

Now that you know what it costs your firm to conduct business by practice area and department, how can you use this information?

1. **Narrow your focus.** Knowing where your firm is most successful financially, you can use this information to focus more on the areas that help to meet your financial goals.
2. **Better identify your firm's mission and vision.** Using this information can help to bring clarity to what you are doing. Having clarity will help everyone in your firm to perform better!
3. **Learn to say no.** Once you have decided on the areas on which you will focus, learn the difficult task of saying no. Taking work that does not benefit your firm will only create a financial loss and take focus of your valuable assets (your attorneys) away from the work they should be doing. That doesn't mean you can't take on loss leaders if you think they will bring value in other ways, but you can be more intentional about those decisions.
4. **Identify who should be performing what tasks and delegate accordingly.** If there are areas of practice that you do not want to give up but you see that the current timekeepers performing the work do not allow you to be profitable in those areas, how can you change that? Are there younger associate attorneys who can handle the tasks currently being performed by senior associates or partners? Are associates performing tasks that could be performed by paralegals? Have you considered the option of using of counsel or part-time attorneys for some areas? The options are endless once you have the knowledge to make informed decisions.

By identifying these important metrics for your law firm, your firm can become more profitable, and your attorneys will be more fulfilled and effective with an improved clarity of focus.

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