

Metric Muscles

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Transitioning from the legal practitioner to the business owner is no easy feat. Combine this with our reliance on technology for data collection and output (i.e., billing and collection, bill paying) and it is easy to overlook some key metrics that guide the health of your firm.



1. **Accounts Receivable.** Knowing the amounts clients owe you is easy; you likely already do if you are a small practice. Acting on the accounts that are inching past due is the next step, understanding that the further away from your work you get, the harder it will be to collect. And you may have work that is already 30 days old before the client ever sees it! Watch your billing for clients who are already sporting past due receivables and have a personal conversation to build a payment plan as soon as you see the drift in payments.

If you have thought about a line of credit for your firm, clean up your A/R before you go to the bank and ask about one. They will want to look at your receivables and will discount anything over 90 days old. Typically, anything over 180 days is discounted 25%. Additionally, any unbilled time over 180 days is discounted 15%. Frankly, it's good business practice to address old receivables, and if you can't collect them, write them off. Establish a policy about unbilled time, even if it is only you, a policy gives your accountability to get this time out to clients.



2. **Overhead Per Lawyer.** Allocating overhead can be a very tricky conversation if you invite all the variables to the table. Make it easy, something you can watch over time, by pulling out any compensation that partners alone receive, and divide the rest by the number of partners. You are watching for changes over time, anything that is greater than the cost-of-living index is worth exploring.



3. **Billing Realization.** This calculation compares time recorded against fees billed. Ideally you want this ratio to be close to 95% in a small firm, and the industry average is closer to 90%. If you are off the mark, you may have a training issue for your lawyer or paralegal, or you may have a bad flat fee arrangement. You may also look at your hourly rate, are you writing off time because you don't feel the value of your rate?



4. **Collection realization.** This calculation measures fees billed against fees collected. Industry average here is just below 90%, and in a small firm (especially a solo), this should be closer to 95%. If you are below these averages take a look at the client intake process and how you identify clients that can pay your fees. Also examine how you offer discounts, and to whom.



5. **Break Even Rate.** The decision to increase your hourly rate needs a foundation beyond “it’s a new year”. Hopefully you are tuned to your market to know what others who are similarly situated are charging, so you stay competitive. And more importantly to the health of your firm, what hourly rate is required for you to break even? This calculation requires you to understand your expenses, and to have a working knowledge of your Profit & Loss Statement. You want to determine, based on the number of hours you bill clients in a given year, what your hourly expenses are. This will give you the margin you make.



6. **Revenue Per Partner.** This is a trend line you want to watch. Measuring the percentage of revenue each partner is receiving year over year is a good way to know the health of the firm. If your per partner revenue is declining, time to take a step back and analyze what is happening across the firm. When you have your break-even rate, you can determine the percentage of profit for each hour, which gives you a sense of the percentage that should be allocated to each partner.

These are a few of the metrics that can be used to measure the health of your firm. These are mainstays as trend lines to watch year over year, most often in a three-year window, to determine how healthy your firm is. These will also help you know when to hire additional staff.

Consider your policy options that pair with these metrics – time entry, billing, collection – that when well established make for a financially strong and successful firm.



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Judy understands leadership and teams. And, she knows how to help you maximize the potential of yours. For over two decades, Judy has applied her vast knowledge of team dynamics, emotional intelligence, work/life balance, leadership, and finance to help organizations improve their people, process, performance and, ultimately, profits.

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