EDGE INTERNATIONAL

Profit Centering by Practice Area
Survey Results

Dates of Survey: January 18—27, 2005
Invited participants: 341 large law firm Principle Administrators
Response: 158 (46%)

1. Does your firm treat practice areas as profit centers?

Yes, we have a formal profit centering program	43	28%
Yes, we collect profit center information informally	44	28%
No, we do not profit center	60	39%
Other	8	5%
Total	155	100%

Comments:

For timekeeping, billing and revenue only.
Periodic ad hoc analysis on client and practice ar
See comments at #7
somewhat. informally, loosely, not sophisticated
We have plans to begin this in 2005
we look at offices v. parctice areas
We use a standard costing system to calculate prof
'Yes but now switching to client/attorney prof ana

2. How do you calculate revenues for a practice area?

By tracking revenue to the practice area to which the matter is coded	15	15%
By the primary practice group of the originating or billing attorney	16	16%
By the primary practice area of the attorney performing the work	54	52%
By coding time entries	3	3%
By subjective determination	0	0%
Other	15	15%
Total	103	100%

Comments:

2 ways: working attorney and supervising partner
85% to working attorney PG; 15% to billing atty PG
both by attorney and by practice area code
Both by matter code and O/A
Both matter & working atty
both Working Atty and Billing Atty area
By the billing attorney for each matter of client
more than one way - work attorney, by billing atto
Multiple, OA, RA, MA. Look at all.
Point 2a - 30%; Point 2c - 70%
tracked by wrkg atty recpts, origination, reap att
We do each of the first three choices above
We track both by originating and working attorney.
We track on billing lawyer and by working lawyer
we track using multiple measures

3. What is the basis of revenues?

The value of time recorded	5	5%
The value of time billed	9	9%
The value of time collected	79	77%
Other	10	10%
Total	103	100%

Comments:

Accrual income after reserves for uncollectibles
actual fee collections
All of the above
Collections, but can start at capacity down
fees received by timekeeper, realization
Full accrual revenue (factoring in wip/reserve)
Time Recorded Adj To Reflect Historical Wk to Coll
value of time recorded reduced by net realization
Value of time work, less realization
We track both collections and value of time worked

4. How do you apply overhead costs to a practice area?

Pro-rated distribution per attorney assigned to a practice area	50	49%
Pro-rated distribution per hour worked in a practice area	14	14%
Percentage of revenues	2	2%
Direct allocation of actual costs	34	33%
Other	22	22%

Comments:

Actual cost of secretaries assigned to department
Allocated costs are distributed by a weighted form
Allocation method dependent on nature of overhead
Allocation of indirect expenses by 4-5 methods.
combination of direct allocation and pro-rata dist
combination of pro-rated by attorney and direct
combination of some direct costs + some pro rata
Combo comp/benefits + general overhead
Combo-direct alloc and pro-rata per atty in p area
Don't
Have not begun to apply costs
Indirect beased on hourly charge
ONLY DIRECT COSTS ASSOCIATED WITH THE GROUP
Only direct expenses are tracked.
Proration of general o/h & specific P.A. costs
See #7
Several different methods hours, FTEs, etc.
Two. 1, cost per hour. 2, weighted avg per FTE.
Various, depending on nature of OH expense
We do not allocate Overhead to Practice Groups
we do not track costs by practice area
We don't. No profit is calculated.

5. How do you apply timekeeper compensation to a practice area?

According to the timekeeper's primary assignment	67	66%
Pro-rated according to percentage of time worked in an area	13	13%
Pro-rated on a per hour charged basis	12	12%
Other	10	10%

Comments:

#1, but looking at #2,#3
Actual cost
Assigned to the attorney in that area directly
Dollar for dollar
Don't
Have not applied costs to date
See #7
we do not
We don't
We don't

6. How do you calculate allocation of partner compensation?

Partner compensation is not included in the cost calculation	28	27%
Full partner compensation is applied to practice area costs	52	50%
A portion of partner compensation is applied to practice area costs representing the value of the partner as a working attorney.	14	14%
Other	11	11%

Comments:

#3. Leadership admin allocated
2 above. Another w/o partner comp-looking at PPEP.
Allocated as direct cost unless exceeds std rate
Calculate before and after partner compensation/
Done both ways. Including partner comp and w/o par
don't
Full comp and "draw" is alloc, excl firm mgt pay
Have not done so to date
See #7
We Don't
We don't.

7. Other comments regarding Question 6 above.

Comments:

% worked by matter type

All equity partners are valued according to the average compensation of non-equity (guaranteed payment) partners.

All individual attorney expenses, including compensation, are allocated by the percentage of hours worked in any specific practice area.

At the end of the year we allocate costs to each timekeeper, including their own compensation. We than divide by their actual billable hours to arrive at a cost per billable hour for each Timekeeper. We than cost out each matter/client using the cost per hour for each timekeeper who worked on the matter/client. When done we have profitability which we can sort by matter, client, billing attorney, area of law or location.

During the year we do not put in equity partner compensation. At the end of the year we add it to get the final numbers for the year

For FTEs there is allocated Partner compensation plus that Partner's overhead allocation: For less than FTE: prorated.

Full compensation does not include P/R taxes and benefits. These are accumulated and applied according to per Shareholder share of costs.

Have in the past performed analysis of individual partner performerance and woudl apply full partner compensation to the study

important to do both ways - with and without partner comp. good measure is contribution margin avialable to the equity class

In some instances, "Income Partners" whose compensation is more fixed than variable with profits is allocated as a "salary" to an applicable practice area.

One third of billing rate is considered "direct cost"

ONly exception is a portion of the Managing Partner's compensation (50%) which is treated as OH and allocated to all practice groups based on attorney head count within each group.

partner draw only

Partners working in an anministrative area while still practicing law are pro rated between admin and their practice group

Pract Group Chairs do the a suggested comp for all members so we give them the PG Stmts to show profitability

Reports to practice groups do not show an allocation of partner compensation. Reports to Management Committee do reflect a partner compensation allocation.

Some balance is achieved because of cross group practice.

This is an evolving area for us and will likely change as our profit center calculations become more sophisticated.

THIS IS ONLY DONE ON A INFORMAL INFORMATIONAL BASIS FOR THE PRACTICE GROUP.

Two approachs are possible 1) Charge the full compensation but charge/credit departments for import/export. This accounts for the compensation paid to attorneys for originations. Second option (but less preferable) is to only charge compensation as a working attorney.

Typically we allocate 100% of compensation less an adjustment for administrative/management responsibilities. However, we assign revenue as 85% to working attorney and 15% to originating attorney, so therefore they are allocated revenue for the compensation related to revenue origination.

We allocate a partner's total compensation between salary for services rendered and return on ownership interest.

We are a Professional Corp. and allocate compensation as direct expenses to the primary practice group

We are considering capping partner compensation, maybe at $250,000.

We avoaid the use of the word "profit" and a use "Contribiton" instaed.

We calculate and apply overhead, then we calculate a per hour cost for each timekeeper based on his/her compensation and overhead. Hours worked in a particular practice area are charged to that area as a cost of services.

We do a number of profit center analysis. One calculates a cost per hour for all timekeepers. The second uses some direct costs from the General ledger, and a weighted avg. calculation to spread o/h.

We do reallocate a portion of partner comp and management overhead

We do three calculations, one before partner compensation, one on the basis of "notional compensation" and the third on the basis of "full compensation".

We don't calculate profitability of practice areas but rather track the drivers of profitability - realization, utilization, leverage, revenue by group, by shareholder and by lawyer.

We don't try to get a P&L by practice group beyond revenue.

We look for a postive contribution from each PA that wehn added together pays partner in the firms. Practically though we look to see if the PA covers the partners in the PA.

We use a "base" salary for all partners. That base is adjusted upward using a formula which operates based upon the number of compensation points (shares) and individual has. So, higher comp partners have higher salaries in the cost model.

We utilize "full" partner compensation, but it is based on the prior year's bonus and current year's salary (or draw).

8. Is there a profitability standard that practice areas are expected to meet?

Comments:

No (19 responses)
Average earnings per unit for partners in group.
Base the standard on the firm average contribution per partner and each group's average is compared as a percentage of firm average.
Budgeted
by contribution margin before partner comp.
By P&L and then deducting partner comp.
Cover all overhead.
EVA Concept
Expected to at least break even. Calculated by practice group revenues less fully loaded direct and indirect allocated costs.
It is an assessment done by individual practice group. The expectation is for improved results year over year. In some cases that may mean narrowing a "loss," and in others it may mean expanding the profit. There are many factors to consider here.
Measureed against firm profits per partner
Must be profitable before payment to partners
No - but if a practice group is not profitable - steps will be taken.
No "bright line" standard at this time.
No formal rules, but there is an expectation our foreign offices should contribute a higher % of profit given the risk profile
No set standard at this point, although targets exist for all groups.
No set std - just profitability in all case expected
No specific standard is applied to the group. In fact we are able to determine each attorneys individual P/L & cost/hour
No standard
No standard
no, but looking for overall equilibrium
No, but we are working on that.
No, not yet
no, we use the data to benchmark the group and show them how to improve profitability
No.
No. Obviously, firmwide it all come out to zero.
no. but we are working on developing one
no. portfolio has to work as a whole. if it doesn't, engineering is required
None
Not at present. At this point, our model is constructed and we are using the results for a variety of analytical purposes, but not yet proactively to establish and monitor performance against goals.
Not at this time
Not there yet. Still analyzing this aspect.
Not yet. Experimenting.
Practice areas are expected to generate enough profit to cover partner compensation at average level of the firm. While not always possible each year, that expectation is expressed at budget time.
Practice Areas are expected to meet or exceed our Budgeted numbers for the year.
Realization percent plus Utilization percent
Recorded time based upon historical realization rates should exceed allocated compensation and overhead.
Relative to other practice areas
Salary plus individual share of overhead

Structure is based upon expected hours by type of timekeeper applied to billable rates, which are a combination of inflationary and market adjustments.
THE "STANDARD IS THE FIRM RESULT, PER UNIT
There is a goal. We work toward the goal. Working for different goals per group.
We are not yet that advanced in our tracking processes.
We focus only on a revenue target calculated by individual based upon target hours X standard rate X 95% realization.
We ste a budget at the beginning of the year
We take an EVA approach. That is how well is the department doing compared to that departments expected profitability based primarily on history. We do not attempt to compare to other departments
we use overall profit margin as a benchmark and examine each office versus that average.
yes
Yes, a budget for each practice group is prepared at the beginning of the fiscal year and that is their "goal". The firm's overall budget is simply the rollup of the individual practice group budgets.
Yes, based upon realistic budget set for the year.
Yes, Profit per partner targets
Yes. Revenues less direct & indirect costs less carrying costs should equal a profit.

9. To what degree is profit center information disseminated?

To firm management	49	48%
To practice group leaders	18	17%
To members of each practice group	2	2%
To all partners	14	14%
To partners and employees	0	0%
Other	20	19%
Total	103	100%

Comments:

all partners see statistics by practice group
Both points 9a and 9b
Everything to all partners, limited info to associ
Exec. Committee - all. PGL's - their group.
Firm management AND each PGL
Firm management and selectively group leaders
Firm management; practice group for their grp only
firm's board, executive committee see all. PG lead
Management, Prac Ldrs and Indv. Attys
managing partner only - he may or may not share
Managment and Practice area leaders.
MC, PG Chairs, Compensation Committee
None yet will be to mgmt first
Selectively by Ex Dir or Chairman
to firm mgmt and each PGL sees their practice grou
To firm mgmt. and practice group leaders
TO MANAGEMENT AND THE PRACTICE LEADERS
We don't do it

10.How is profit center information used?

General information	80	78%
Allocation of marketing expenditures	12	12%
Recruiting emphasis	1	1%
Partner compensation	21	21%
Rate setting	15	15%
Other	24	24%

Comments:

A little bit of each of these
all of the above, plus deal structure / pricing
Client Acceptance
Create budgets
decision support on resource allocation
Evaluation purposes
Manage toward goals. Coaching.
Management of resources & capacity;cost control
Many ways
Measuring management of practice group leader
Performance Evaluation for group members
Planning on profit improvement
Practice management, reality check on compensation
Profitability for firm - strategic planning
Ptr Comp, advert budget and qtrly measurement
Staffing
Strategic Planning
To manage their respective departments
To see if is contributing to the overall profit

11.Other comments.

Comments:

Although we have tracked for years, we have just started using Redwood for this purposes. Still carefully control how we use and disseminate this information

good luck. needs to be managed deftly to avoid downside of "profitcenterteering". Upside is big, but downside can be bigger.

Practice group management was implemented a little over a year ago without the involvment of finance (prior to my arrival). The utility of using profit centering has not been realized by the attorney-management of the law firm as of yet

Using it as road map to future, what changes need to be made, etc. Try not to be nonthreatening.

Utility of information is greatest in evaluation relative economic contribution of individual partners for compensation purposes and clients for test of return on investment. Use at the practice group level is still in formative stages. Hard to apply our system directly to groups as so many lawyers have membership in more than one group.

We also calculate Client Profitability

We are currently undertaking the profit center accounting system in an effort to better correlate profitability to practice groups rather than gauging them on revenue only.

WE are switching to client and partner profitability and away for profit center

We do all types of profit center analysis: inidividual, matter, client, sub-group, group, office. Once you develop the underlying methodology you can then slice it any way you want.
we do not currently use this for partner compensation but its coming
We do not publish full P&L info (after deducting overhead and partner com) to anyone other than the board.
We have made PGs the driving force. We also track esport and imoport into the groups
We have used this model successfully for several years. However, it is inherently backward looking. We have recently implemented a second model (from Redwood Analytics) to calculate profitability based upon the value work performed that can easily filter down to the client level.

12.How many lawyers does your firm currently have in all offices?

Under 150	71	46%
150 to 300	46	30%
300 to 500	19	12%
500 to 750	13	8%
Over 750	6	4%
Total	155	100%

13.Where is your firm's headquarters?

Northeast (including Washington, DC)	50	33%
Southeast	28	19%
Southwest	15	10%
Midwest	40	26%
West Coast	18	12%
Total	151	100%