



Save the Firm!

Objective Compensation
Can Help Your Firm Keep
Your Best People

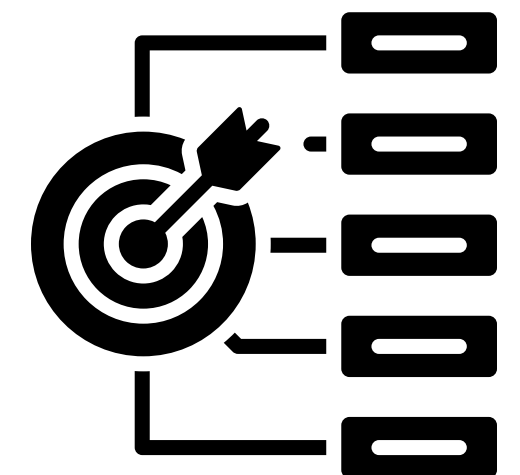
My Story

- 35 year practicing attorney in mid-size firm
- Pain from bad business practices
- 30 years with exceptional firm
- Passion to make law firms better businesses
- Founded LeanLaw, legal billing software company



Objectives Today: **You will understand**

- **Key financial metrics that separate best-in-class financial performance from average**
- **The six pillars of best-in-class midsize financial performance**
 - Accountable Culture
 - Efficient Operations
 - Objective Compensation
 - Tailored Product
 - Pinpoint Marketing
 - Clear Succession
- **Focus: The value of an objective compensation system in talent retention**



Factors to **Retain Legal Talent**

➤ **Money**

➤ **Prof. Development**

➤ **Money**

➤ **Positive Culture**

➤ **Money**

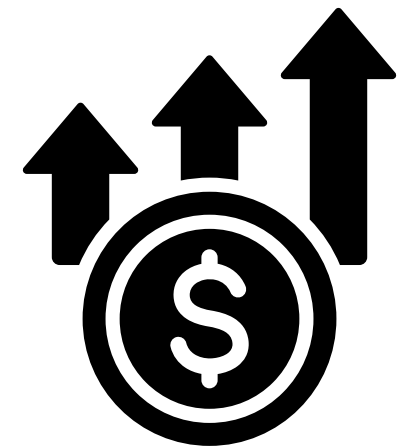
➤ **Money**

➤ **Flexibility**

➤ **Money**

➤ **Communication**

➤ **Money**



How Law Firms **Make Money**

➤ **Revenue Minus Overhead = Profit**

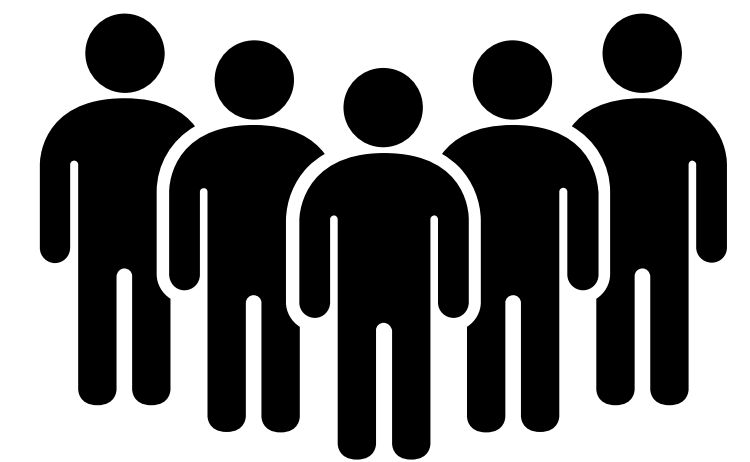
➤ **Five Elements of Profit:**

- Capacity
- Utilization
- Realization
- Collection
- Overhead as % of revenue



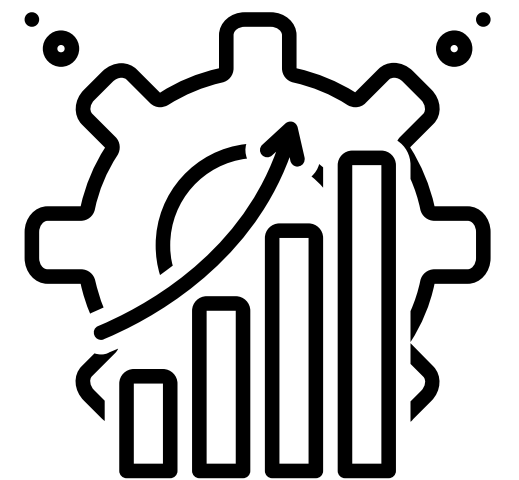
What's at Stake: **A Tale of Two Law Firms.**

- **Identical Lawyers**
- **One is average for the key metrics**
- **The other firm is a top performer**
- **What's the difference?**



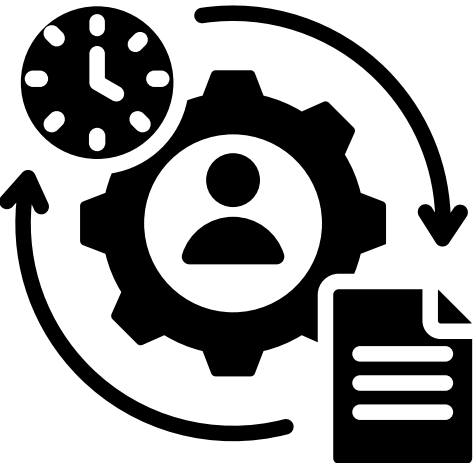
Capacity

- **Assume the capacity is the same**
- **Another phase: increase capacity / decrease hours**



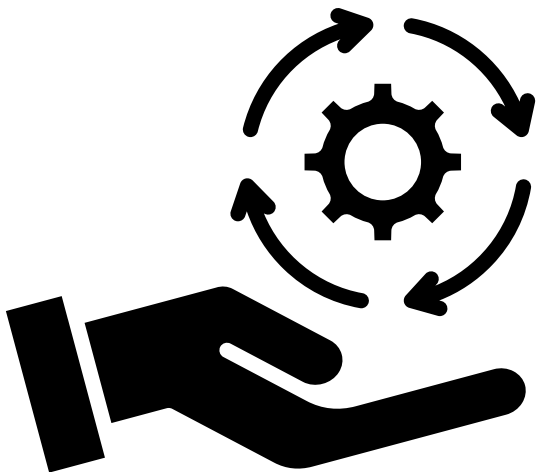
Utilization:

	Top Performer	Average Performer
Potential Revenue	\$5,000,000	\$5,000,000
Utilization Rate	95%	90%
Billable Time (Potential x Utilization %)	\$4,750,000	\$4,500,000



Realization

	Top Performer	Average Performer
Billable Time (Potential x Utilization %)	\$4,750,000	\$4,500,000
Realization Rate	95%	90%
Billed Time (Billable x Realization %)	\$4,512,500	\$4,050,000



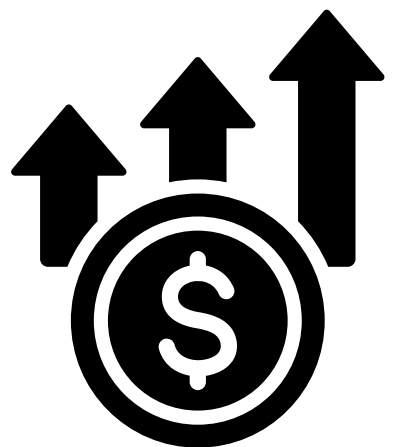
Collection

	Top Performer	Average Performer
Billed Time (Billable x Realization %)	\$4,512,500	\$4,050,000
Collection Rate	95%	90%
Gross Revenue (Billed x Collection %)	\$4,286,875	\$3,645,000



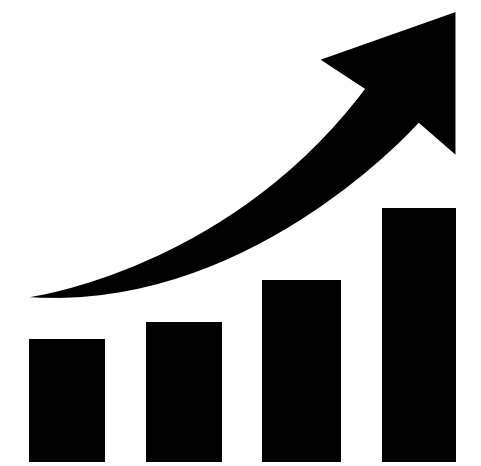
Overhead as % of Revenue

	Top Performer	Average Performer
Gross Revenue (Billed x Collection %)	\$4,286,875	\$3,645,000
Overhead as % of Revenue	25%	50%
Profit Before Distributions (Gross Revenue Minus Overhead)	\$3,215,156.25	\$1,822,500



What's the difference?

	Top Performer	Average Performer	Difference
Profit Before Distributions	\$3,215,156	\$1,822,500	\$1,392,656
Profit Per Lawyer / Year	\$321,516	\$182,250	\$139,266
Profit Per Lawyer / 40 Year Career	\$12,860,640	\$7,290,000	\$5,570,640



What's the difference **between these firms?**

- **LEADERSHIP and MANAGEMENT are the difference**
- **The lawyers want to practice law and add to the top line**
- **Intentionally or not, LEADERS and MANAGERS create the bottom line**



Does the difference **matter**?

➤ **For lawyers:**

- Freedom
- Happier practice
- Different retirement

➤ **For managers:**

- More satisfaction
- Better work environment
- Different understanding of your value



How is your firm performing?

Law Firm Financial Report Card							
	Definition	Amount	% of Goal	Benchmark for "A"	Grade	Cost per atty / year	Cost per atty / career
# of Attorneys		25					
Capacity Per Attorney	Last year, the average potential revenue of an attorney at budget, assuming 100% collection	\$500,000	92%	95%	B	\$15,000	\$600,000
Firm Capacity (\$ budgeted)	What would your timekeepers have worked last year at full capacity?	\$12,500,000					
Utilization (\$ worked)	How many \$ in billable time were actually worked last year?	\$11,000,000	88%	95%	C	\$30,800	\$1,232,000
Realization (\$ billed)	How much was actually billed last year?	\$9,000,000	82%	95%	D	\$47,455	\$1,898,182
Collection (\$ collected)	How much was actually collected last year?	\$8,000,000	89%	95%	C	\$19,556	\$782,222
Overhead	What was your total overhead for all expenses EXCEPT expenses related to billable timekeepers, e.g. salaries and partner distributions?	\$3,000,000	38%	30%	C	\$9,000	\$360,000
Profit	Collection minus overhead (this is what's left to compensate billable timekeepers).	\$5,000,000	40%	51%	C	\$121,810	\$4,872,404

Download our financial report card after the webinar

What does it tell you about your strategy?

The Six Pillars of **Best-in-Class Financial Performance** in **Midsize Law Firms**

- **Accountable Culture**
- **Efficient Operations**
 - Overhead
 - Technology
- **Objective Compensation**
- **Tailored Product**
- **Pinpoint Marketing**
- **Clear Succession**





Objective Compensation: The Best Model

Compensation: Cash Is King

- **Firm should retain cash reserves**
- **Don't compensate partners based on billings**
- **Don't pay partners a salary / give a draw**
- **Charge a premium where firm takes risk**
- **Allow partners reasonable negative draws**



Compensation: The Three Values Supporting Every Great Law Firm Compensation Model

- **Trust**
- **Fairness**
- **Accountability**



Compensation: Failed Models

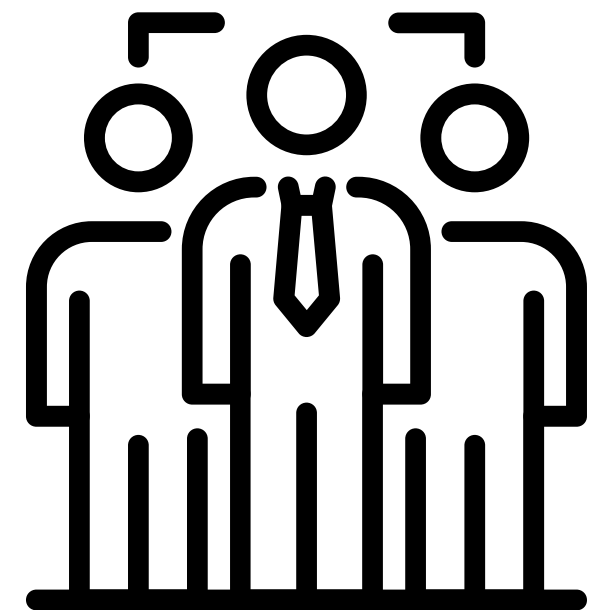
- **Lockstep**
- **Compensation Committee**
- **Anarchy**
- **Bureaucracy**



Compensation: Lawyer Compensation

Factors in Objective Model

- **The Finder: Origination / Making Rain**
- **The Minder: Client Management /Responsible Atty**
- **The Grinder: Working Atty**
- **Firm Management / Marketing / Intangible**
- **Longevity/Equity**



Compensation: Typical Factor Weights

Factor	%
Origination	10%
Responsible	5%
Working	75%
Contrib to Firm Share/Equity	10%
Management Comp/Hr	\$250
Total overhead	50% of Revenue*

*Ideal is 30% or less

Compensation: Simple Formulas are Better

- **Tie clearly to the why: trust, fairness & accountability**
- **Complexity can be divisive. Is it serving your values?**
- **Complexity is expensive**

Compensation: Personas



Horace

Founding partner.
Professionally accomplished (ego)
Values traditions (he created them)
Put heart and soul into building the firm



Atticus

New managing partner and full-time lawyer.
Stressed out.
Just wants to practice law.
Feels he's not compensated well enough for management duties.



Julia

Hard-charging 40-year-old partner.
Coming into her own as a rainmaker.
Low compensation in lockstep system.
Respected?



Franchesca

Lifestyle Partner.
Talented
Wants to raise family and "stay in the game".
Ramp up her practice later.



Marvin

Talented, hard-working associate.
Often paid on salary.
Chafing that he works harder than other associates and gets paid the same.



Glenda

Paralegal.
Does great work but takes advantage of fixed salary to do the minimum.

Compensation: Personas

What if a persona is not on the list?

- **Objective compensation is great for self selection**
- **Compensation criteria should reflect firm performance expectations**
- **The people you value most should succeed financially**

Horace



Founding partner

Professionally accomplished (ego)

Values traditions (he created them)

Put heart & soul into building the firm

Component	Production	Lockstep	%	Objective / Pro Rata	Objective / Proportional
Origination	\$1,400,000		10	\$140,000	\$140,000
Responsible	\$500,000		5	\$25,000	\$25,000
Working	\$750,000		75	\$562,500	\$562,500
Management	200 hrs		\$250/hr	\$50,000	\$50,000
Equity	40 years	\$1,458,824	10	\$108,235	\$108,235
Overhead	\$250,000	\$250,000	100	\$250,000	\$394,244
Total		\$1,208,834		\$635,735	\$491,491

Atticus



New managing partner and full-time lawyer

Stressed out

Just wants to practice law

Feels he's not compensated well enough for management duties

Component	Production	Lockstep	%	Objective / Pro Rata	Objective / Proportional
Origination	\$300,000		10	\$30,000	\$30,000
Responsible	\$700,000		5	\$35,000	\$35,000
Working	\$400,000		75	\$300,000	\$300,000
Management	1,000 hrs		\$250/hr	\$250,000	\$250,000
Equity	15 years	\$547,059	10	\$40,588	\$40,588
Overhead	\$250,000	\$250,000	100	\$250,000	\$291,805
Total		\$297,059		\$405,588	\$363,783

Julia



Hard-charging 40-year-old partner

Coming into her own as a rainmaker

Low compensation in lockstep system

Respected?

Component	Production	Lockstep	%	Objective / Pro Rata	Objective / Proportional
Origination	\$1,000,000		10	\$100,000	\$100,000
Responsible	\$1,500,000		5	\$75,000	\$75,000
Working	\$750,000		75	\$562,500	\$562,500
Management			\$250/hr	\$0	\$0
Equity	15 years	\$547,059	10	\$40,588	\$40,588
Overhead	\$250,000	\$250,000	100	\$250,000	\$346,330
Total		\$297,059		\$528,088	\$431,758

Franchesca



Lifestyle Partner

Talented

**Wants to raise family and
“stay in the game”**

Ramp up her practice later

Component	Production	Lockstep	%	Objective / Pro Rata	Objective / Proportional
Origination	\$300,000		10	\$30,000	\$30,000
Responsible	\$400,000		5	\$20,000	\$20,000
Working	\$400,000		75	\$300,000	\$300,000
Management	100		\$250/hr	\$25,000	\$25,000
Equity	15 years	\$547,059	10	\$40,588	\$40,588
Overhead	\$250,000	\$250,000	100	\$250,000	\$184,980
Total		\$297,059		\$165,588	\$230,608

Marvin



Talented associate

Chafing that he works harder than other associates and gets paid the same

Component	Production	Lockstep	%	Objective / Pro Rata	Objective / Proportional
Origination	\$100,000		10	\$10,000	\$10,000
Responsible	\$0		5	\$0	\$0
Working	\$600,000		75	\$450,000	\$450,000
Management	100 hrs		\$250/hr	\$25,000	\$25,000
Equity	5 years		10	\$0	\$0
Overhead	\$250,000		100	\$250,000	\$215,875
Total		\$100,000		\$235,000	\$269,125

Glenda



Paralegal

Does great work but takes advantage of fixed salary to do the minimum

Component	Production	Lockstep	%	Objective / Pro Rata	Objective / Proportional
Origination	\$0		10	\$0	\$0
Responsible	\$0		5	\$0	\$0
Working	\$200,000		75	\$150,000	\$150,000
Management	0 hrs		\$250/hr	\$0	\$0
Equity	20 years		10	\$0	\$0
Overhead	\$250,000		100	\$250,000	\$66,766
Total		\$70,000		-\$100,000	\$83,234

Lockstep Compensation Example

Proportionate to longevity + market salaries

Component	Horace	Atticus	Julia	Franchesca	Marvin	Glenda
Equity share	\$1,458,824	\$547,059	\$547,059	\$547,059		
Pro Rata Overhead	\$250,000	\$250,000	\$250,000	\$250,000		
Total	\$1,208,824	\$297,059	\$297,059	\$297,059	\$100,000	\$70,000

Objective System / Pro Rata Overhead

Component	Horace	Atticus	Julia	Franchesca	Marvin	Glenda
Origination (10%)	\$140,000	\$30,000	\$100,000	\$30,000	\$10,000	\$0
Responsible (5%)	\$25,000	\$35,000	\$75,000	\$20,000	\$0	\$0
Working (75%)	\$562,500	\$300,000	\$562,500	\$300,000	\$450,000	\$150,000
Management Comp	\$50,000	\$250,000	\$0	\$25,000	\$25,000	\$0
Equity	\$108,235	\$40,588	\$40,588	\$40,588		
Comp Before Overhead	\$885,735	\$655,588	\$778,088	\$415,588	\$485,000	\$150,000
Overhead pro rata	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Total	\$635,735	\$405,588	\$528,088	\$165,588	\$235,000	-\$100,000

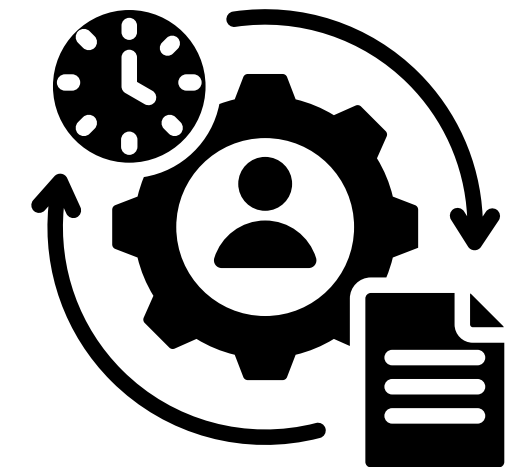
Objective System / Proportionate Overhead*

Component	Horace	Atticus	Julia	Franchesca	Marvin	Glenda
Origination (10%)	\$140,000	\$30,000	\$100,000	\$30,000	\$10,000	\$0
Responsible (5%)	\$25,000	\$35,000	\$75,000	\$20,000	\$0	\$0
Working (75%)	\$562,500	\$300,000	\$562,500	\$300,000	\$450,000	\$150,000
Management Comp	\$50,000	\$250,000	\$0	\$25,000	\$25,000	\$0
Equity	\$108,235	\$40,588	\$40,588	\$40,588		
Total Revenue	\$885,735	\$655,588	\$778,088	\$415,588	\$485,000	\$150,000
Proportionate overhead	\$394,244	\$291,805	\$346,330	\$184,980	\$215,875	\$66,766
Total	\$491,491	\$363,783	\$431,758	\$230,608	\$269,125	\$83,234

*Variations: person by person / class by class

Objective System: **Pulling It Together**

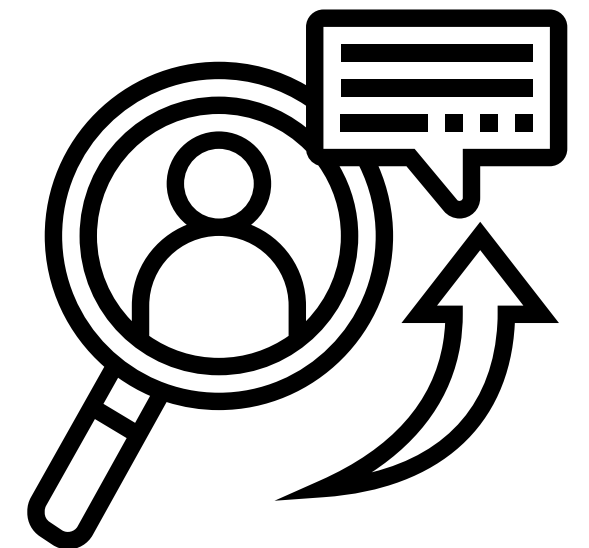
- **Set the stage / The clock is ticking!**
- **Have respectful conversations about why**
- **Align on your firm values & culture**
- **Align on compensation factors & weight**
- **Set up and implement**
- **The clock is ticking!**



QUESTIONS?

Look For Email Linking to More Resources

- Slides & recording
- Law firm financial report card
- Law firm compensation calculator
- e-Book - The Linchpin, Chapters 1-3
- Q&A from prior compensation webinar





Thank you!!!