

By Austin Anderson

Coping with the Economy

Changes in Overhead and Gross Receipts per Attorney Since 1999

The previous Economics of Law Practice survey reported 1999 attorney office expenses and gross revenues. These results are compared with 2002 results from the current survey. Exhibit 1 highlights these changes, covering all firms and those where the respondent works full time. Both median (50th percentile with half of the responses higher and half lower than the median) and mean values (or simple average values) are presented. Mean values exceed median values when the data is skewed by high "Outliers" (i.e., a reported gross revenue per attorney of \$2,000,000). The discussion that follows is based on reported median values.

The survey revealed that per attorney receipts increased 5.9 percent per year over the last three years (19.7 percent over the three-year period) for full-time private practitioners. Using an average inflation rate of 2–2.5 percent per annum averaged over this period, gross revenues per attorney increased in real terms. On the expense side, overhead (fixed labor and office-related expenses independent of practice volume) increased 5.6 percent per year (or 16.9 percent over the three-year period) for full-time private practitioners. The resultant overhead rate increased slightly from .40 to .41.

The dominant component of overhead—labor costs—increased 3.3 percent annum,

which was typical for price increases in the service sector during this time.

Fee Setting and Law Office Management Productivity Improvements Since the Previous Survey

The economic conditions faced by Michigan lawyers obligates them to improve office productivity to maintain high quality legal services. Pricing power remains in effect as there is strong alignment between price increases per unit of output (i.e., valued as the billable hour) and the fixed costs of doing business. Refer to Exhibit 2.

Productivity gains, contributed in part through improved practice management,

Exhibit 1
Changes in Overhead and Gross Receipts, Michigan Law Practices, 1999–2002

Measures

	Survey Year			Survey Year			% Chng/ annum Median	% Chng/ annum Mean
	2003/2002 Median	2000/1999 Median	% Change	2003/2002 Mean	2000/1999 Mean	% Change		
All Attorneys								
Overhead/attorney								
Labor	\$25.5	\$25.0	2.0	\$33.1	\$35.2	-6.0	0.7	-2.0
Occupancy	\$11.1	\$12.0	-7.5	\$13.5	\$13.9	-2.9	-2.5	-1.0
Other Fixed Costs	\$12.0	\$15.0	-20.0	\$21.1	\$26.6	-20.7	-6.7	-6.9
Total*	\$55.0	\$49.0	12.2	\$65.6	\$59.0	11.2	4.1	3.7
Gross Receipts/attorney (in \$000s)	\$135.0	\$125.0	8.0	\$157.6	\$141.5	11.4	2.7	3.8
Ratio of Expenses to Receipts	0.41	0.39	5.1	0.42	0.42	0.0	1.7	0.0
Full-Time Private Practitioners Only								
Overhead/attorney (in \$000s)								
Labor	\$30.0	\$27.3	9.9	\$37.0	\$36.0	2.8	3.3	0.9
Occupancy	\$12.0	\$12.0	0.0	\$14.6	\$14.9	-2.0	0.0	-0.7
Other Fixed	\$15.0	\$17.0	-11.8	\$24.2	\$28.9	-16.3	-3.9	-5.4
Total*	\$64.3	\$55.0	16.9	\$75.4	\$136.0	-44.6	5.6	-14.9
Gross Receipts/attorney (in \$000s)	\$160	136.0	17.6	\$183.1	153.0	19.7	5.9	6.6
Ratio of Expenses to Receipts	0.4	0.4	0.0	0.41	0.40	-2.4	0.0	-0.8

*Many respondents only included total and not the line items comprising overhead.

appear to be incurring. This section reviews practice management patterns with an emphasis on shifts since 2000. There is a general increase in practices that result in more efficient service delivery.

Setting Hourly Billing Rates

Firms vary as to the amount and frequency of increases when they change their hourly billing rates. Since 2000, the trend has been to increase the rate by more than 10 percent as shown in Exhibit 3. Approximately 40 percent of respondents have increased their rates by more than 10 percent since their previous rate increase. Firms have consistently maintained the frequency of changing rates with the trend toward waiting more than one year between changes as shown in Exhibit 4.

Exhibit 2
Trends in Hourly Billing Rates and Overhead Expenses,
Michigan Law Practices, 1985–2003

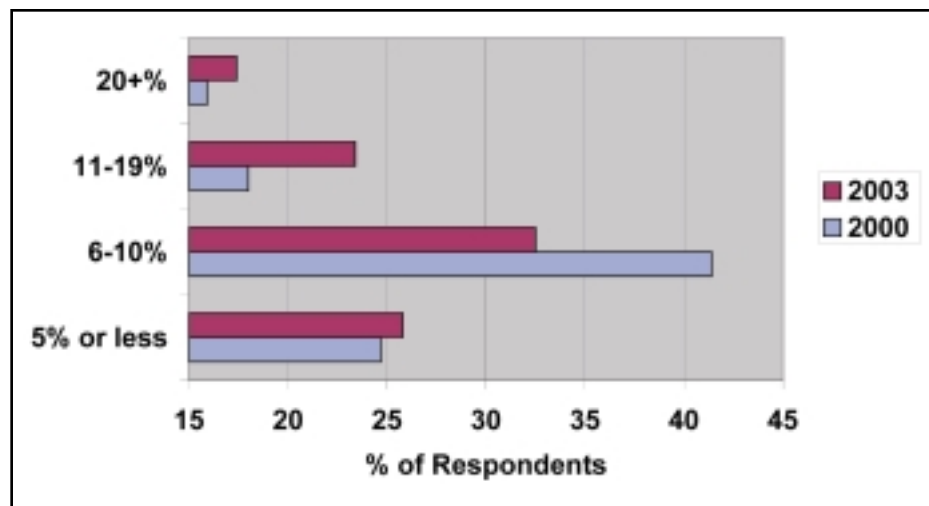
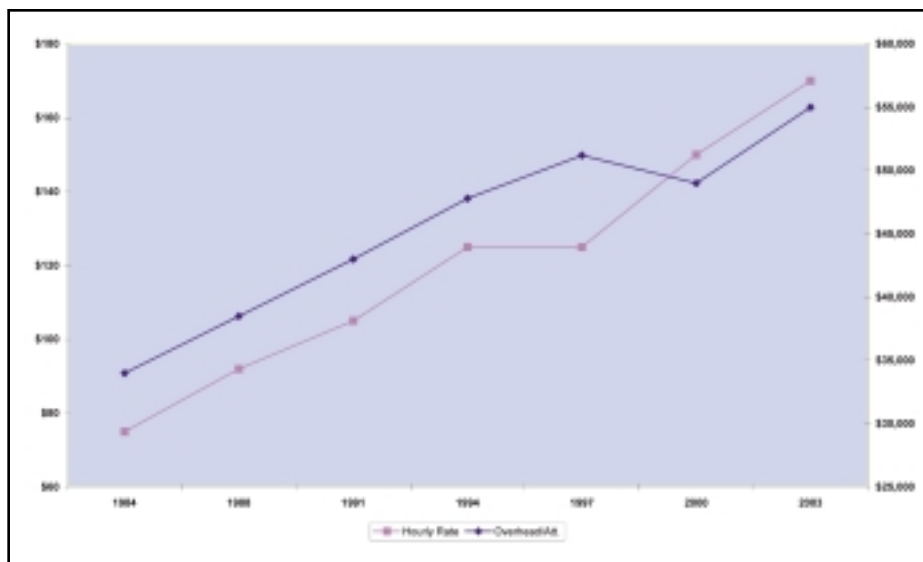
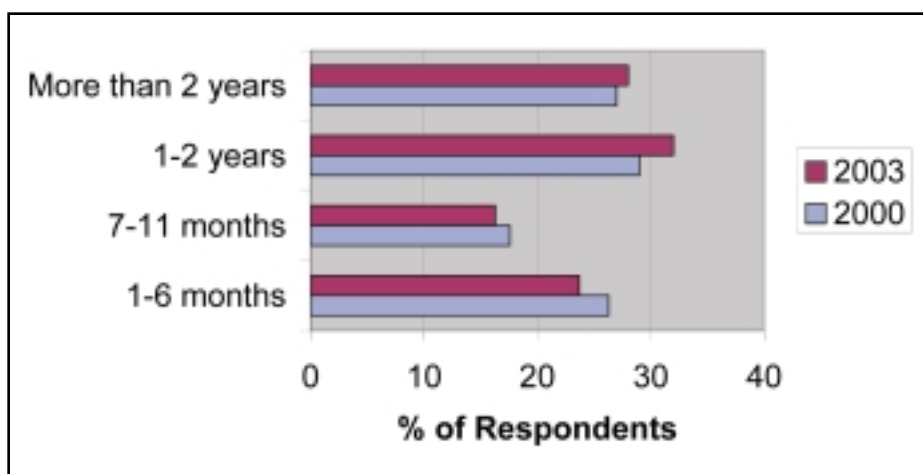


Exhibit 3
Percent Change in Hourly Rates,
2000 v 2003

Exhibit 4
Elapsed Time Since Hourly Rate
was Changed, 2000 v 2003



Uncollectibles

Firms have improved their collections since 2000 as the percentage of uncollectibles except for receivables of 2 percent or less, which have increased from 29 percent to 36 percent of respondents. Refer to Exhibit 5. The duration of time to collect has remained constant with most respondents reporting a 60-day lag as shown in Exhibit 6. The delay in receiving payment of invoices obligates a firm to focus on its efforts to collect its receivables.

Interest Charges

Exhibit 7 reveals that very few firms *always* add an interest charge, but the trend

Exhibit 5
Percent of Fees Uncollectible, 2000 v 2003

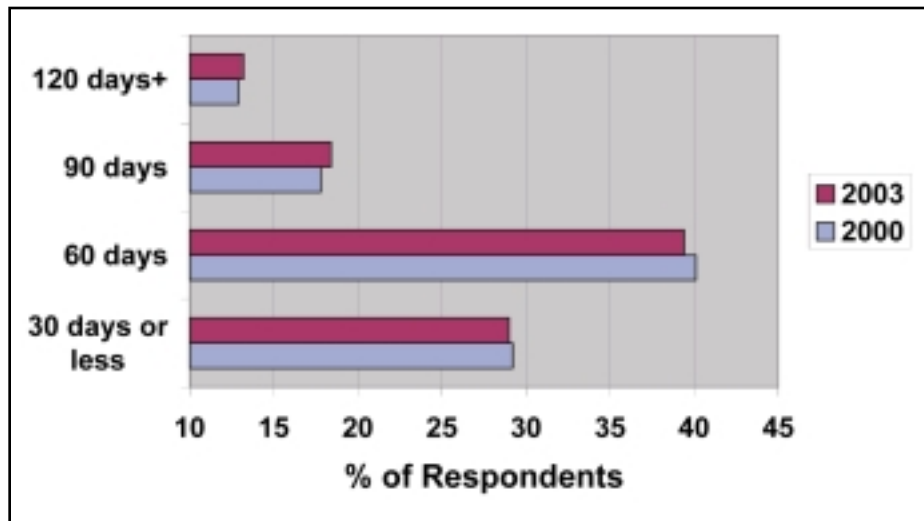
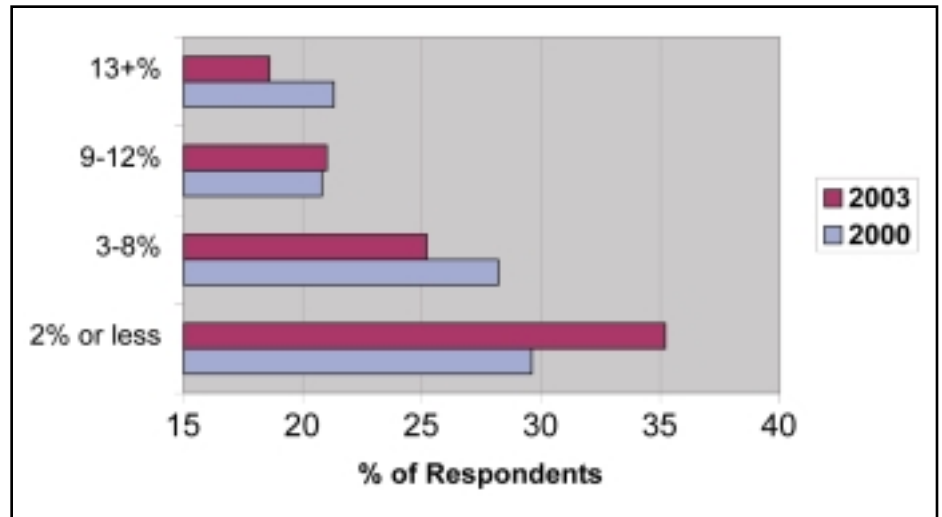


Exhibit 6
Days Required to Collect Fees,
2000 v 2003

Exhibit 7
Frequency of Adding Interest Charge to
Delinquent Accounts, 2000 v 2003

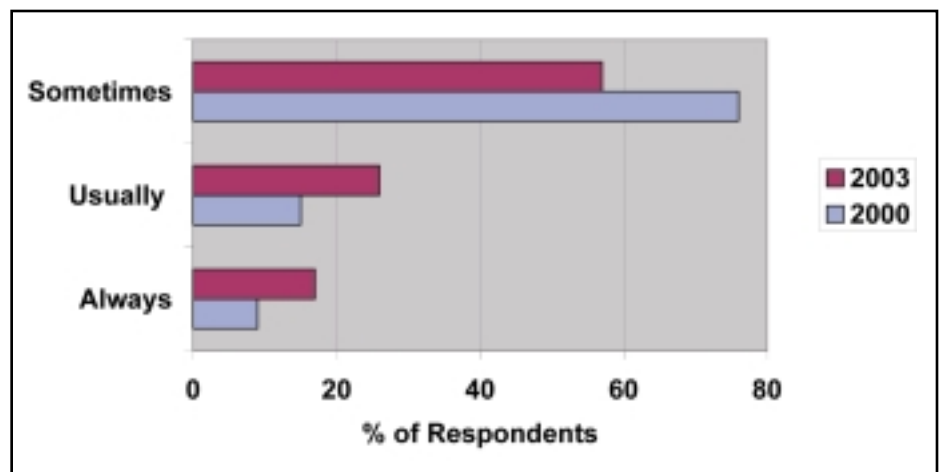
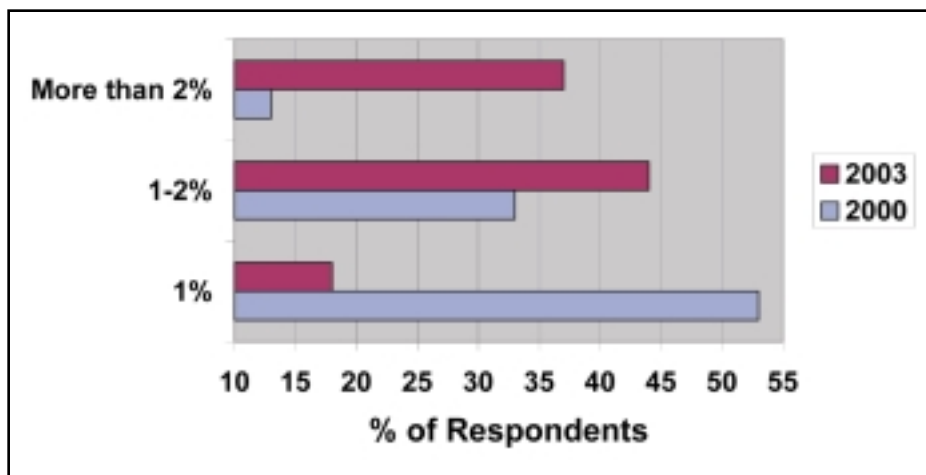


Exhibit 8
Amount of Service Interest Charges on Delinquencies, 2000 v 2003



among firms is to *always or usually* apply them. The amount of the charge has dramatically increased since 2000. Refer to Exhibit 8.

Use of Part-Time Staffing

The use of part-time attorneys has declined since 2000. Similarly, the employment of part-time or flex-time staff usage has decreased. Refer to Exhibits 9 and 10.

Exhibit 9
Use of Part-Time or Contract Attorneys,
2000 v 2003

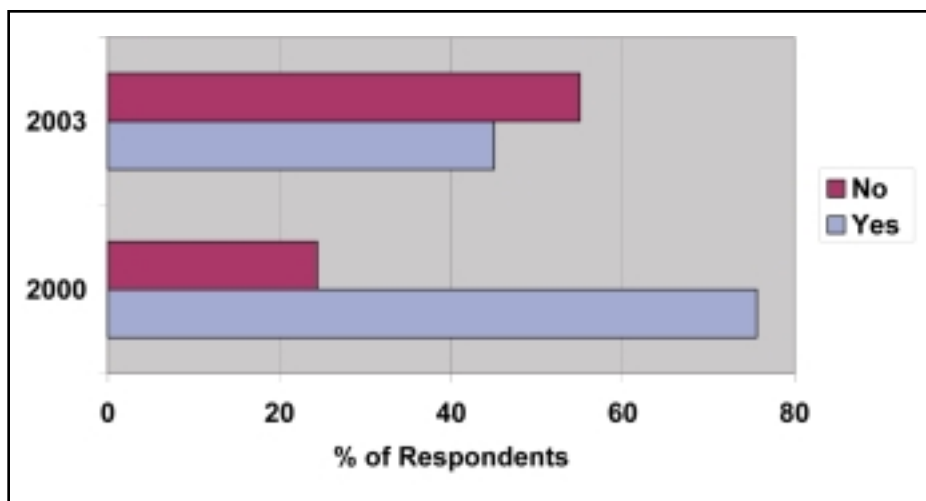
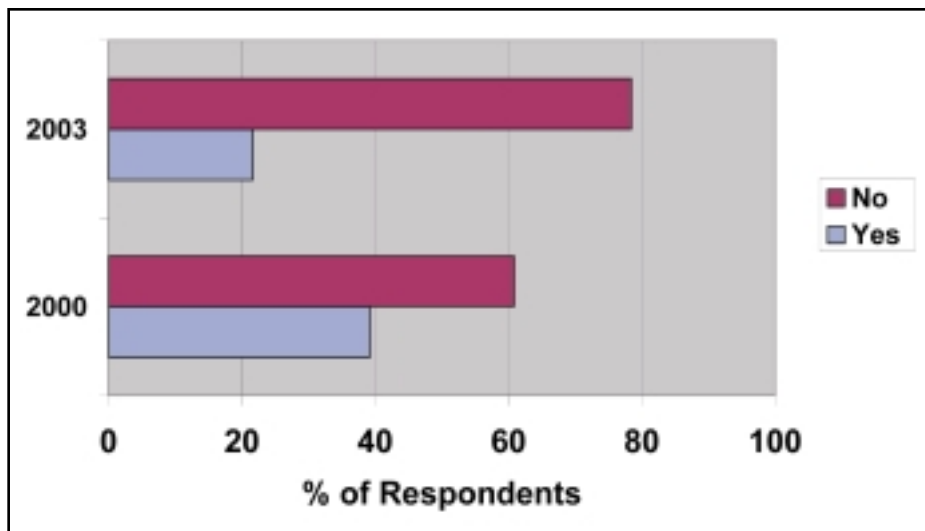


Exhibit 10
Use of Part-Time or Flex-Time Staff,
2000 v 2003

Shifts in Economic Sentiment

Respondents are pessimistic about their current economic status, with a majority expressing the view that current economic circumstances of the legal profession are worse than in previous years. Refer to Exhibit 11. Six percent report that their circumstances are better. Almost 25 percent of the respondents believe economic circumstances will worsen, with only 6 percent of respondents optimistic about the future. More than 61 percent predict the status quo. Refer to Exhibit 12.

Given the current level of pessimism, it is not surprising that almost a third of respondents feel the future of their practice area will be less satisfying with some respondents seeking to change their practice area or quit the practice of law. Refer to Exhibit 13.

Exhibit 11
Current Circumstances Practicing Law Compared to Prior Years, June 2003

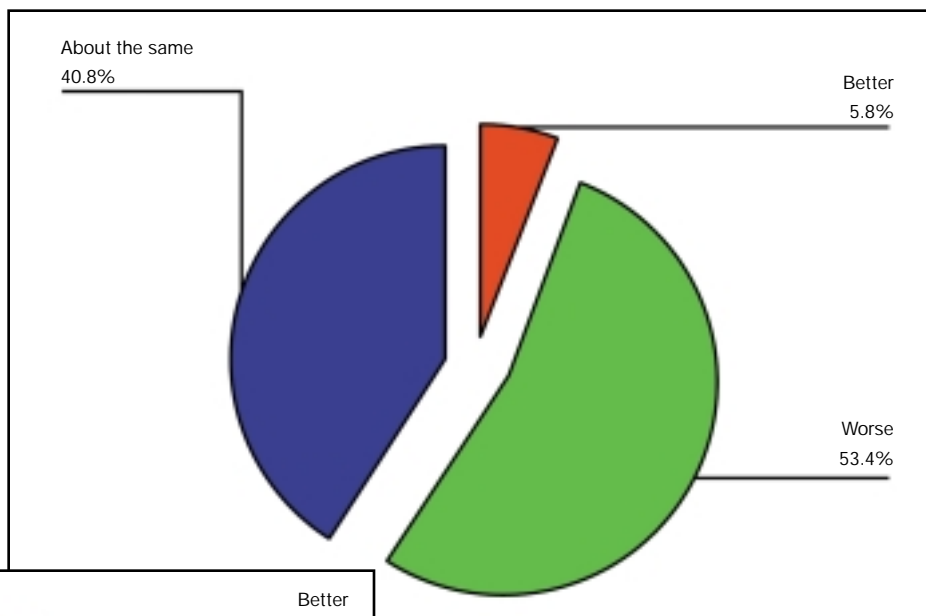


Exhibit 12
Future Circumstances Practicing Law Compared to Current Year, June 2003

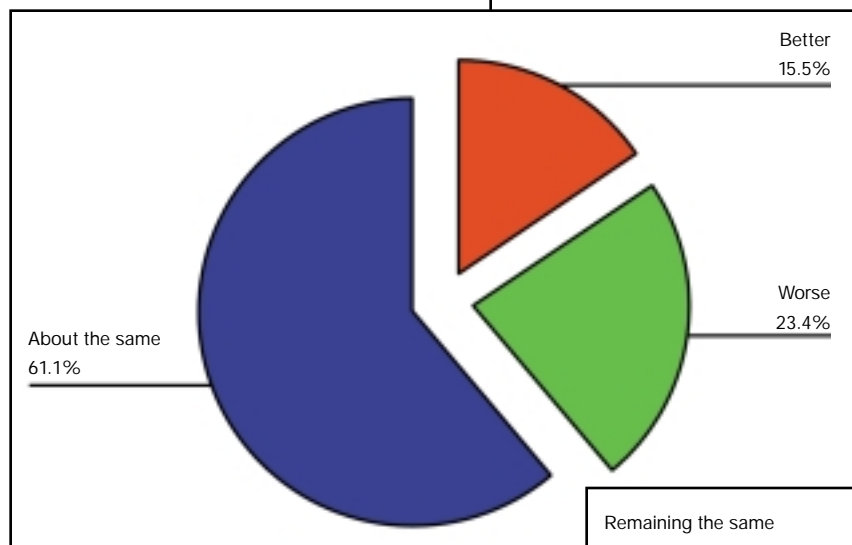
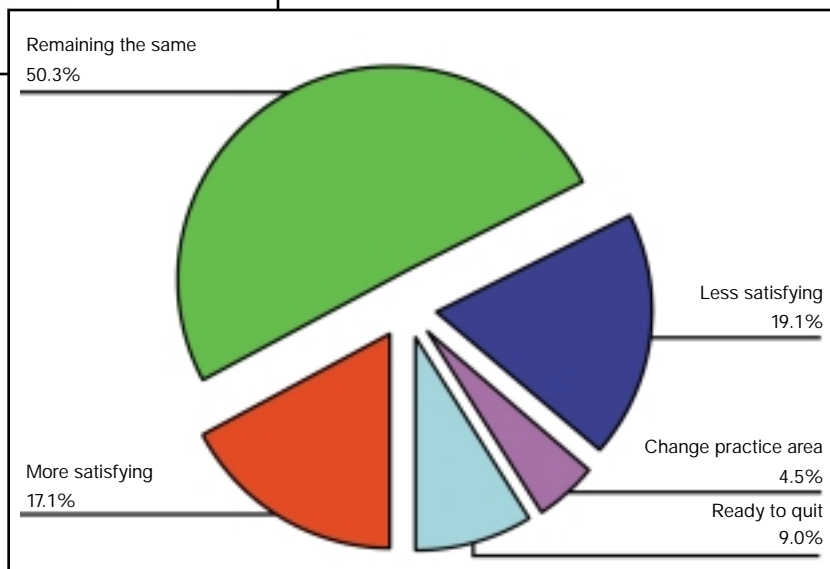


Exhibit 13
Views on the Future of Practice Area, June 2003



Law Firm Marketing Practices

There is a significant variation in the degree to which solo practitioners and law firms use formal and informal marketing methods and tools to increase their client base and receipts. While there are scores of alternative

approaches to marketing professional services, each with its level of cost-effectiveness, there is a clustering of traditional methods relied upon by most practitioners.

Exhibit 14 ranks the overall frequency of use of 12 approaches, which accounts for

more than 90 percent of all methods used. On the questionnaire, attorneys were asked to choose up to 5 approaches resulting in 1,444 responses. Many attorneys use multiple approaches.

Considering all of the approaches, networking with other attorneys dominates, followed by yellow page advertising and client entertainment. Use of the web follows as does the growing networking with trade groups as attorneys begin switching from practice area foci to industry-specific foci. Brochures and directories are still utilized, as are free seminars and participation in a variety of legal networks as specialization continues to increase. Printed newsletters and newspaper advertising round out the "top 12."

The secret to success for Michigan law firms involves financial discipline and focus as well as persistent marketing efforts. ◆

Austin Anderson is a principal with the Anderson Boyer Group in Ann Arbor. He is a graduate of the University of Minnesota. His degrees include a BA in Business Administration and a JD. His consulting practice includes strategic planning, financial management, lawyer development, transitioning lawyers and clients, marketing, and mergers and acquisitions. Among the publications he has written or co-authored are: Associate Retention: Keeping Our Best Brightest (June 2002), Improving Firm Performance, Profitability and Partners: The Effective Associate Training Program (1999) and The Lawyer's Handbook (1992).

Exhibit 14
Ranked Use of Marketing Vehicles, June 2003

