MOORE Markhams

Accountants and advisors

LEGAL PRACTITIONERS' PERFORMANCE SURVEY 2019

FOCUS ON DELIVERING EXPERTISE AND VALUE ARE KEY TO PROFITABILITY

Top firms took home more of every dollar of fees earned over the past year, with the average equity partner net income representing 48 percent of gross fees.

Two of the top firm firms* took home at least 60 percent of gross fees as net income, which is a phenomenal result.

The higher profit percentage can be a result of equity partners succeeding in recovering more of their own time at high charge rates. A reason being less time spent on firm management tasks, a benefit of an efficient firm management structure that utilises a practice manager.

The gross margin on equity partner time charged is 100 percent as there is no salary cost of equity partner charged time.

The survey suggests the top firms* have been successful in becoming more efficient - equity partners with specialist areas are more successful in charging more hours at higher rates over a financial year.

GENERAL CHARACTERISTICS OF A PROFITABLE LEGAL FIRM

Average gross fees per equity partner in excess of

$1 MILLION

Partner charge out rates of $450 plus

Staff salaries margin to gross fees generally **35%**

(however can be higher if gross fees are significantly higher)

Overheads (excluding interest and salaries) to gross fees of **25%** or less

Partnership of **2** or more equity partners with at least one non-equity partner

Do not share profits equally amongst equity partners

*Firms ranked by profitability per equity partner

The Auckland Legal Practitioners' Performance Survey 2019 is a initiative of the legal industry business development unit of the Moore Markhams chartered accountancy group.

It has been conducted regularly since 2006 in the Auckland marketplace, and covers topics such as practice profitability, efficiency, work type, hours, salary comparisons and gender impact.

In 2019, 21 firms participated.

Sam Bassett of Moore Markhams acts for a large number of legal firms and barristers in Auckland.

He assists legal clients with firm mergers, partner admissions, retirement and consults on ways to improve profitability.

ANNUAL ACCOUNTS AND PROFITABILITY

A total of 21 firms from the Auckland region supplied statistics. Seven firms submitted for the first time. Five firms operate through limited liability companies and 16 operate as partnerships.

There were no submissions from sole practitioners. Overall, the number of equity partners totalled 99, compared to 80 in 2017 and 73 in 2015.

Since our last survey in 2017, there has been consistency in turnover and profitability. The top five firms ranked by profitability* reported net equity partner incomes ranging from $738,000 to $1,203,000 (2017: $609,000 to $1,250,000). Out of the 21 participants, nine firms (43 percent) had equity partners earning in excessive of $500,000 net income for the year. This is slightly less than 45 percent of firms in 2017, but more than 40 percent of firms in 2015.

The popular trend of working in partnerships comprising equity and non-equity partners (NEPs) has historically had a significant impact on profitability and this continues to be reflected in the 2019 survey results. The top five ranked firms* had two to three equity partners and four had one to three NEPs.

Through our work with legal firms, we have seen the lock-step partnership formula still being a popular choice for retaining and rewarding key talent. Firms that have committed early to lock-step succession planning reap the rewards of an overall increase in equity partner earnings and growth in the firm. This is realised through increased contributions from NEPs and younger partners on their progression towards equity partners.

Specialisation in commercial contracts, commercial conveyancing, employment law and commercial litigation featured in the top three firms*. Net incomes for the top three firms* was in excess of $800,000 per equity partner.

Expectation for fee growth appears positive with average growth of nine percent expected overall in the next 12 months. This is compared to an average fee growth expectation overall of eight percent in 2017.

This year we asked for information regarding the gender of partners in each firm. The top five firms* had 12 equity partners, 11 of whom were male and one female. Of the 99 equity partners included in our survey, 74 (75 percent) were male and 25 (25 percent) were female. Included in the survey were 32 NEPs, made up of 17 (53 percent) male and 15 female (47 percent) NEPs. This is in line with trends we have seen that reflect lower percentages of females represented at equity partner level. This may be due to females still being the predominant family caregiver, although we are seeing the balance in these roles changing.

Location continues to be a key factor in profitability with eight out of the top ten firms* based in the central city. It should be noted that two suburban firms were ranked at places 5 and 9 based on profitability per equity partner, with net incomes in excess of $700,000 and $500,000 respectively. These two suburban firms both provide general legal services and were ranked in place 10 and 12 respectively in terms of turnover per equity partner. They have been able to achieve increased profitability by having some of the lowest overhead percentages in the group, with overhead percentages of 17 percent and 12 percent of turnover respectively.

A summary of average charge out rates, turnover and rent cost by location is below:

Location	No. of firms	Partner charge out rate	Turnover per equity partner ($000)	Rent per equity partner ($000)	Rent % of turnover
Central Auckland	11	516	1,553	105	7%
City fringe	5	440	819	47	6%
Suburban	5	444	1,159	41	4%

Participants in the lowest five for profitability* were located in the city fringe and suburbs.

The main factors for these firms was lower turnover and high salary costs as a percentage of gross fees.

Higher rent costs in central Auckland continue to be the main driver for higher overhead costs. For the 11 central Auckland firms, overhead costs made up 24 percent of turnover. For the five city fringe firms, overhead costs made up 25 percent of turnover and for the five suburban firms overhead costs made up 21 percent of turnover.

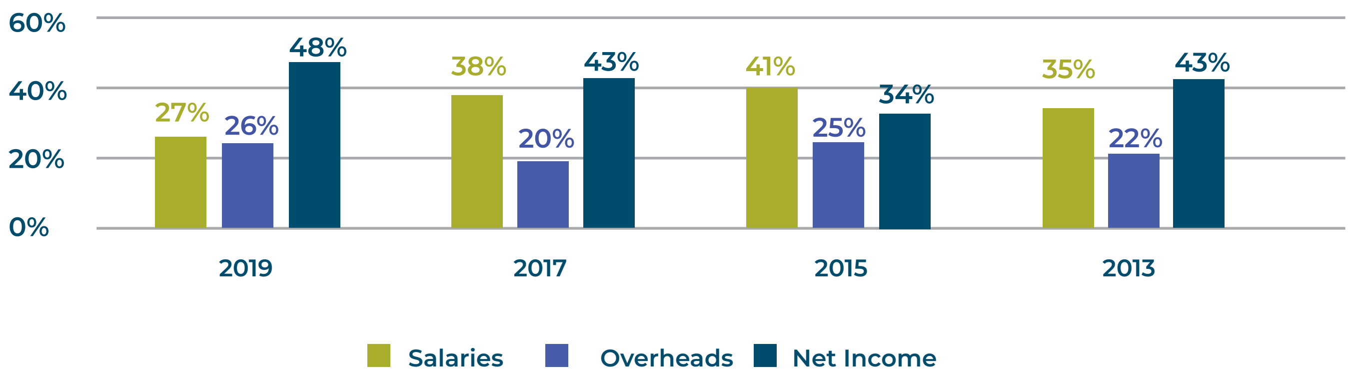
The percentage of rent cost to gross fees has increased on average across the central city located firms by two percent up on 2017 levels, but have remained constant in the city fringe and suburban locations.

*Firms ranked by profitability per equity partner

KEY PERFORMANCE INDICATORS (KPI)

A SUMMARY OF KPIs FOR THE TOP 5 FIRMS RANKED BY PROFITABILITY IS BELOW.

Top 5 average key performance indicators 2013-2019
(ranked by profitability per equity partner as a percentage of gross fees)



The above table highlights 2019 net income per equity partners as a percentage of turnover as the highest across the period 2013 to 2019 (48 percent of turnover).

Below is a table of average turnover and net income per equity partner in dollar terms.

Top 5 firms by profitability*	2019	2017	2015	2013
Average turnover	1,935,000	2,231,000	2,438,000	1,314,000
Average net income per equity partner	919,000	957,000	839,000	569,000

The five most profitable firms averaged $919,000 net income per equity partner in 2019, which is lower than 2017: $957,000.

However, despite the decrease in dollar value of net income per equity partner, the overall percentage of turnover is higher, which suggests effective management of overheads and salaries. In particular, salaries as a percentage of turnover is now the lowest across the seven-year period from 2013. However, overheads as a percentage of turnover have diminished the effects of the salary reductions by increasing to 26 percent in 2019, which is the highest percentage of turnover during the seven-year period.

It is essential to get the right mix in strategy between generating fees and managing overheads in order to achieve an optimal level of profitability.

Non-equity partners (NEPS)

The trend of having NEPs in practice continues to be a feature contributing to the overall success of small to medium sized firms. Four of the top five* and eight of the top ten* firms had NEPs. In monetary terms, NEP salaries in the survey range from $150,000 to $280,000 (2017: $150,000 to $350,000).

NEPs are contributing significantly to firm profits and as a result are commanding remuneration to match their economic contributions.

Practice manager contribution

Of the 21 participants, 16 firms employ practice managers. We note that the top 10 firms ranked by profitability all employ practice managers. The salary ranges from $80,000 to $160,000 (2017: $95,000 to $190,000).

Remuneration for the practice manager employed by the most profitable firm* included a bonus based on a percentage of net income for further incentivisation.

Practice managers increase firm efficiency by focusing on operations and freeing partners to focus on business growth, having a direct impact on profitability.

*Firms ranked by profitability per equity partner

SALARY COMPARISONS

	2019 range	2019 average	2017 average	2015 average	2013 average
Non-equity partner / principal	$150,000 - $280,000	$209,000	$237,000	$200,000	$173,000
Senior Solicitor (5+ years) post admission	$90,000 - $208,000	$127,000	$134,000	$128,000	$122,000
Intermediate solicitors (2-3 years' PA experience)	$47,000 - $135,000	$84,000	$86,000	$77,000	$72,000
Graduate solicitor	$45,000 - $75,000	$56,000	$53,000	$50,000	$49,000
Legal executive (5+ years' experience)	$60,000 - $200,000	$86,000	$ 66,000	$60,000	$50,000
Legal executive (0-5 years' experience)	$45,000 - $130,000	$83,000	$75,000	$79,000	$66,000
Secretarial (senior)	$55,000 - $80,000	$69,000	$65,000	$63,000	$60,000
Secretarial (junior)	$30,000 - $60,000	$50,000	$46,000	$ 44,000	$41,000
Research clerk	$40,000 - $60,000	$50,000	$ -	$ -	$ -
Practice manager	$80,000 - $160,000	$111,000	$118,000	$ 106,000	$ 94,000

The more profitable firms tend to pay their staff more. On average, the top five firms* pay $131,000 ($161,000 in 2017) to senior solicitor with five years or more post admission experience. The least profitable five firms* pay $119,000 ($106,000 in 2017). The average salary for various roles across firms are shown in the table with comparisons from previous legal surveys.

Average salaries have increased overall from the 2017 year across the various roles, with a slight decrease in non-equity partner, senior solicitor and intermediate roles. It is also important to note the broad range in salaries for each role.

Practice efficiency

The combination of work in progress (WIP) and debtors, commonly referred to as 'lockup' per equity partner, is an important indicator of a firm's financial efficiency with work practices. If a firm is not managing workflow, billing and collection efficiently this is often an indication that other work processes are not being done efficiently.

From the results received, lockup ranges from 0.6 months to 5.1 months (2017: 0.7 months to 4.7 months). However, all firms in the survey have an average lockup of 2.6 months' worth of fees tied up in debtors of WIP. The top five most profitable firms* had an average lockup of 1.5 months compared to 3 months for the lowest five firms*.

Partnership profit distribution

Out of 21 firms surveyed, 13 report that partnership profits are not shared equally (2017: 13 out of 22). This could be a factor of succession planning where retiring partners exit on a lock-step basis similar to a NEP entering the partnership.

Disclaimer

The data reproduced in this report has been supplied on a confidential basis to Moore Markhams Auckland by legal practitioners in the Auckland region. We have not audited the information and accordingly neither we nor any of our employees accept any responsibility for the accuracy of the material from which this report has been prepared.

This report is highly confidential. Please take every precaution to ensure it remains confidential.

Participants are numbered only, and their identity is not disclosed. The information in this report should only be used by the person or firm that has purchased it from Moore Markhams Auckland.

Spreadsheet notes

In the separately supplied Excel spreadsheet, the survey results are shown firm by firm, i.e. each column shows individual practitioner's statistics. They are spread across the page in descending order of gross fees per equity partner. On the right side of the page are the average statistics for the firms listed on that page, providing a 'peer group' average. Averages were adjusted where necessary to provide a more meaningful comparison, for example if a firm did not have a senior solicitor, then the average charge out rate for a senior solicitor was only calculated for the firms that did have them.

Results are ranked by 'gross fees per equity partner'; therefore, you can compare your results with several other participants in the survey that have a similar gross fee level per equity partner.

Overheads exclude interest paid, which has been added back into net profit, because almost all other statistics are directly comparable from firm to firm, but interest may depend on external personal factors relating to how a firm is financed. Please contact Moore Markhams Auckland should you wish to have a copy of this spreadsheet.

For more information please contact
Sam Bassett
sam.bassett@markhams.co.nz
D: +64 (0)9 306 7103

Moore Markhams Auckland
Level 1, 103 Carlton Gore Road, Newmarket
PO Box 2194, Auckland 1140, New Zealand
T +64 (0)9 309 6011