



Crowe Horwath Financial Performance Benchmarking Study of Australian Law Firms

Crowe Horwath are delighted to partner with Australian Legal Practice Management Association (ALPMA) to deliver the financial performance benchmarking study of Australian law firms.

This landmark study has been produced using Crowe Horwath's proprietary benchmarking tool, Open Measures (www.openmeasures.com.au), enabling Australian law firms to compare the financial health of their practices to that of other firms.

Below is a summary of the survey results for the financial year ending 30 June 2011.

POPULATION SUMMARY

REVENUE	<\$5M	\$5M < \$10M	\$10M < \$20M	\$20M+	TOTAL
NO.	31	13	11	5	60

FIRM STRUCTURE	Sole Practice	Partnership	Incorporated	TOTAL
NO.	8	29	23	60

BUSINESS LINE	Business Commercial	Family	Insurance	Mediation Dispute Resolution & Litigation	Personal Injury	Property	Wills & Estate	Mix of two and more	Residential Conveyancing	Building and Construct.	TOTAL
NO.	19	5	3	1	7	7	1	15	1	1	60

LOCATION	CBD	Outside CBD	Regional	TOTAL
NO.	41	12	7	60

STATE	NSW	VIC	QLD	SA	WA	National	TOTAL
NO.	9	17	19	10	1	4	60

REVENUE BAND AVERAGES

REVENUE BANDS	<\$5M		\$5M - \$10M		\$10M - \$20M		\$20M+	
	Min 0.78	Max 4.4	Min 5.0	Max 9.3	Min 10.0	Max 19.6	Min 21.8	Max 54.9
Average of GP%	58%		57%		61%		56%	
Range of average GP %	36%	79%	48%	78%	49%	84%	47%	63%
Average Indirect Labour Cost %	21%		20%		19%		19%	
Average Total Labour Cost %	62.9%		63%		58.4%		63.5%	
Range for Total Labour Cost %	44.8%	80.1%	45.6%	75.8%	30.8%	72.5%	55%	76.8%
Average Rent %	5.5%		6.1%		6.1%		6.2%	
Average Profitability %	8%		8%		8%		10%	
Average Lock Up Days	140		167		163		153	
Average Working Capital Absorption %	35%		36%		38%		37%	
Average ROCE %	24%		22%		17%		28%	
Average Growth Outlook %	5.9%		5.2%		5.7%		7%	

Below is a guide to the definitions and calculations used.

PROFITABILITY

Gross Contribution %	$\frac{\text{Gross Profit Contribution}}{\text{Revenue}^*}$	<p>Gross Contribution Margin represents the percentage of revenue left after direct professional staff costs have been covered.</p> <p>This is an important measure as it captures the pricing of work and the productivity of staff.</p>
Indirect Labour Cost %	$\frac{\text{Indirect Labour Cost}}{\text{Revenue}^*}$	<p>The Indirect Labour Cost percentage indicates the proportion of revenue consumed by non fee earners.</p>
Rent %	$\frac{\text{Rental Expense}}{\text{Revenue}^*}$	<p>The Rental Expense percentage indicates the proportion of revenue that is allocated to provide firm occupancy.</p> <p>This fixed expense commitment is a major cost that is required to be met from gross contribution.</p>
Profitability %	$\frac{\text{Profit before Interest and Tax}}{\text{Revenue}^*}$	<p>Profitability % represents the operating performance of a firm expressed as a return on revenue after all expenses have been covered (except interest and tax).</p> <p>This is important as this is the amount allocated to the Partners to draw, and pay interest to their funding providers (usually banks).</p>

* Revenue includes WIP movement

WORKING CAPITAL

Debtor Days Lock-up	$\frac{\text{Total Debtors (x365)}}{\text{Revenue}}$	<p>The Debtor Days Lock-up measures the number of days taken to collect outstanding debts.</p> <p>This is one of the most common measures of the effectiveness of cash collection processes.</p>
WIP Days Lock-up	$\frac{\text{Total WIP (x365)}}{\text{Revenue}}$	<p>The WIP Lock-up days measures the number of days WIP is held in a period before invoicing.</p> <p>It indicates the time taken to complete matters and to invoice the client.</p>
Working Capital Absorption Rate (%)	$\frac{\text{Working Capital}^{**}}{\text{Revenue}}$	<p>The Working Capital Absorption Rate represents the amount invested in working capital as a percentage of revenue.</p> <p>This important ratio indicates the amount of cash that will be absorbed by working capital when the volume of fees increase, provided the working capital drivers remain unchanged. If the working capital absorption rate is greater than the gross contribution percentage then an increase in the volume of fees will generate negative cash flow for the business.</p>

PERFORMANCE

Activity Ratio	$\frac{\text{Revenue}^*}{\text{Working Capital} + \text{Non-current Assets}}$	<p>The Activity Ratio is a measurement of how efficient the firm is – that is, how efficient the generation of revenue is from the capital employed by the firm.</p> <p>This measurement reflects the amount of revenue generated by each dollar of total capital employed. The major drivers are accounts receivable, WIP, accounts payable and non-current assets.</p>
Return on Capital Employed (ROCE) (%)	$\frac{\text{Profit before Interest and Tax}^*}{\text{Working Capital} + \text{Non-current Assets}}$	<p>The Return on Capital Employed provides a dynamic measurement linking the operational performance in the profit and loss account with the performance in the balance sheet. It is the relationship between profitability and the total capital employed. It provides insight into the adequacy of the firm's profitability and effectiveness of working capital management.</p> <p>* Revenue includes WIP movement</p> <p>** Working Capital is the combination of your WIP and Debtors balances less Creditors.</p>

ASSUMPTIONS

Notional Salary	<p>Notional Salary for Partners used in this survey for calculation purposes:</p> <ul style="list-style-type: none"> ■ \$150,000 for Partners practising in the regional areas ■ \$200,000 for Partners practising in the CBD or suburban areas.
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Our Team



Andrew Chen
Business Advisory

Tel +61 2 9619 1626
Mobile 0410 660 510
andrew.chen@crowehorwath.com.au



Sue-Ella Prodonovich
Business Development Services
for Law Firms

Tel +61 2 9367 3120
Mobile 0411 780 255
sue-ella.prodonovich@crowehorwath.com.au



Patrick Giddy
Personal Wealth Management
and Insurance for Partners

Tel +61 2 9619 1833
Mobile 0458 232 153
patrick.giddy@crowehorwath.com.au



Leah Russell
Audit and Trust Reviews

Tel +61 2 9619 1735
Mobile 0417 636 108
leah.russell@crowehorwath.com.au



Samuel Mantarro
Personal Wealth Management
and Insurance for Partners

Tel +61 2 9619 1819
Mobile 0438 424 590
samuel.mantarro@crowehorwath.com.au



Thomas Thoma
Business Advisory

Tel +61 2 9619 1937
Mobile 0407 484 530
thomas.thoma@crowehorwath.com.au



Luke Mitchell
Business Advisory

Tel +61 2 9619 1685
Mobile 0412 081 807
luke.mitchell@crowehorwath.com.au



Stephen Waite
Business Advisory and Compliance

Tel +61 2 9619 1681
Mobile 0414 994 146
stephen.waite@crowehorwath.com.au



Roger Penman
Tax Consulting and Succession Plans

Tel +61 2 9619 1693
Mobile 0413 994 130
roger.penman@crowehorwath.com.au



Jenny Wheatley
Valuations

Tel +61 2 9619 1977
Mobile 0419 448 170
jenny.wheatley@crowehorwath.com.au