

Law Office Finances

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LAW OFFICE FINANCES

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In this session we will explore cost cutting options, identify moneysaving opportunities, discuss alternative billing practices and debate what might work in your practice and what may not.

Finally, we should never forget – how to get paid!

LAW OFFICE FINANCES

Every person, every day starts off with exactly the same amount of time as everybody else. It is what you do with that precious resource that makes the difference. As lawyers in a service industry we are all slaves to time. Even the most efficient will be limited by the rotation of the earth. You must have time to sleep, you must have time to take a holiday, you must have time to be sick, you may not use all of your time to work.

ALTERNATIVE BILLING

Hourly charges remain the traditional method of billing in modern law offices. This method of billing creates a predictable stream of income for the lawyer. It is simple to calculate the parameters of a lawyer's income using this method of billing. For example, if a lawyer wishes to calculate gross income the only controllable variables are the number of hours worked, the hourly rate, and the cost of completing the work.

A good rule of thumb is that the cost of completing the work will be equivalent to 50% of every dollar earned. As such, if a six-figure income is desired, and a reasonable amount of billable hours is contemplated (1200 hours per year) it will be necessary to charge time at \$170.00 per hour.

$$1200 \text{ (hours)} \times \$170 \text{ (rate)} = \$204,000 \text{ (gross income)}$$

A couple of important limitations on this formula, however, are that there are only so many hours in the day and the work must be performed solely by the hourly practitioner. If the hourly rate is raised to \$300, the increase results in a gross income of \$180,000.

The most fundamental problem with billing by the hour is that time spent by the lawyer does not necessarily equate to value delivered to the client.¹ It is not a measure of productivity. Nor is it a measure of effort. Rather, it is simply a calculation of time spent (either productively or leisurely) on one matter or the other.

Flat Fee or Fixed Fee

If the expectation of the public (a client) is that a particular task completed by a given lawyer should have the same cost whether delivered by a senior practitioner or a junior lawyer, the \$300 lawyer (senior practitioner) should complete the same task in 56% of the time that it takes the \$170 lawyer (junior practitioner). A flat fee caters to this expectation.

¹ Canadian Bar Association, *The Future of the Legal Profession: the Challenge of Change* (Ottawa: CBA, 2000) at page 53