NEW ZEALAND NATIONAL LEGAL PRACTITIONERS FINANCIAL PERFORMANCE BENCHMARKING SURVEY 2024

MOORE Markhams

ALPMA Australasian Legal Practice Management Association

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LEGAL INDUSTRY - A DEEPER LOOK

This year Moore Markhams has partnered with ALPMA for the legal practitioners' financial performance benchmarking survey and there are a total of 63 firms throughout New Zealand that have completed the survey.

Among the participants, 20 firms are based in Auckland, 3 firms are based in Wellington, 19 firms are based in Other North Island, 13 firms are based in Christchurch, and 8 firms are based in Other South Island. Only 20 of the participating firms are located in the city centres. 68% of survey participants were located outside of the CBD, and 32% were located inside the CBD.

The 2024 survey yielded insights into the trends and challenges experienced by firms within the legal industry. We note that the responses are based on the firms' 2023 financial year-end. We have divided the participating firms into seven tiers based on profitability per equity partner, the table below summarises the key performance indicators (KPIs) for each tier.

		Average Turnover	Average Salary Costs	Average Overheads	Average Net Income
Top 5 Firms (Tier 1)	**$**	2,393,062	1,016,046	490,201	886,815
	% of Gross Turnover		42%	20%	37%
Next Top 5 Firms (Tier 2)	**$**	1,843,877	783,454	425,347	635,075
	% of Gross Turnover		42%	23%	34%
Tier 3	**$**	1,501,344	535,347	401,412	564,585
	% of Gross Turnover		36%	27%	38%
Tier 4	**$**	1,511,489	673,823	379,511	458,155
	% of Gross Turnover		45%	25%	30%
Tier 5	**$**	1,188,154	503,656	335,478	349,019
	% of Gross Turnover		42%	28%	29%
Tier 6	**$**	1,007,780	459,159	307,653	240,968
	% of Gross Turnover		46%	31%	24%
Tier 7	**$**	1,057,892	485,999	471,877	100,016
	% of Gross Turnover		46%	45%	9%

KEY FINDINGS

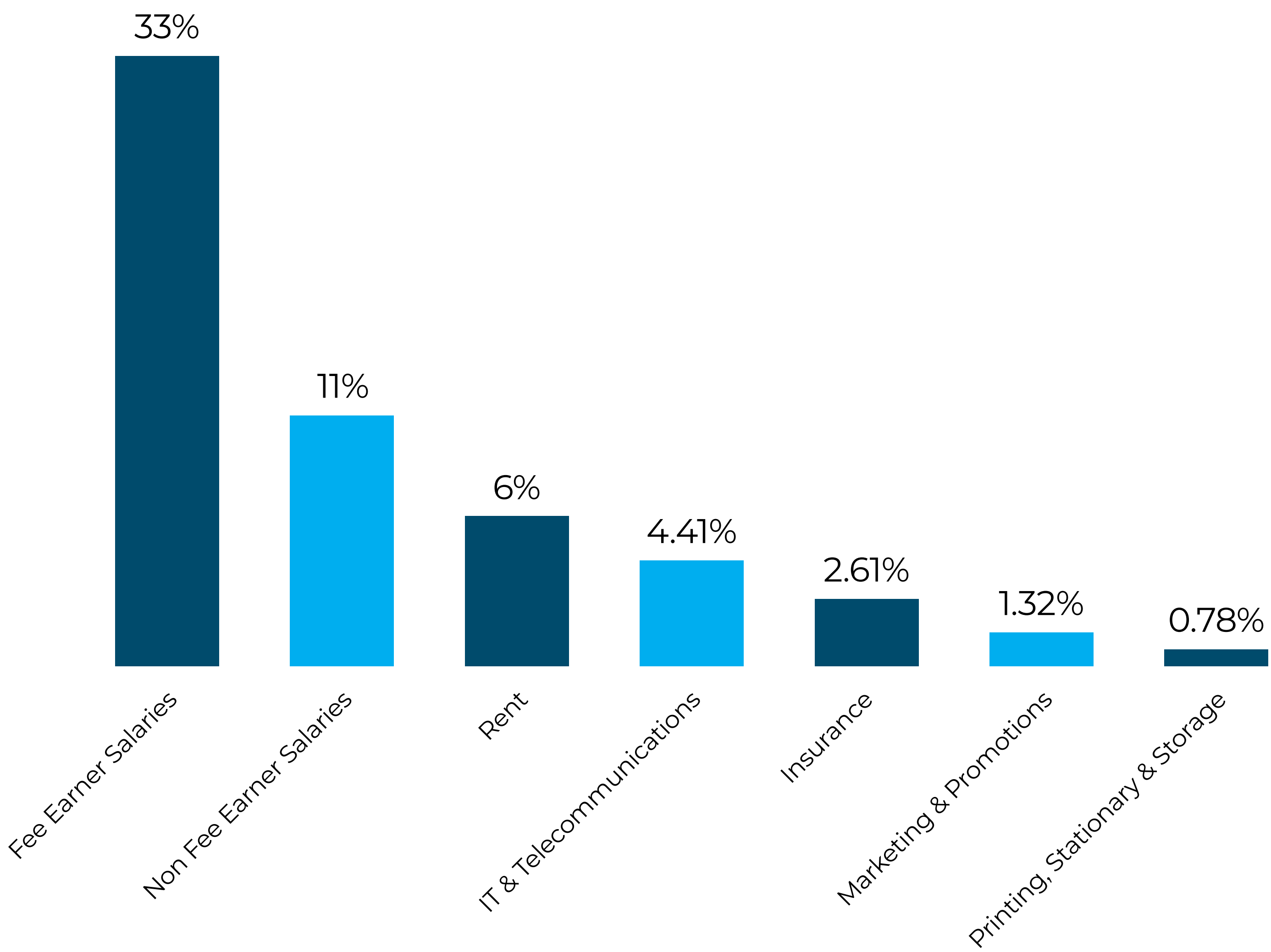
Increase in Gross Turnover

Average gross revenue per equity partner has exceeded $1 million across all seven tiers. Three of the top five most profitable firms ranked by profitability per equity partner have gross fees per equity partner in excess of $2.4 million.

Major Expense Categories

The average expenses as a percentage of gross revenue for the major expense categories across all participants are illustrated below.

AVERAGE EXPENSE TO GROSS REVENUE %



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“The future ain’t what is used to be.”

Yogi Berra

SALARY COSTS SURGE

One notable trend is the significant increase in salary costs as a percentage of gross earnings. Across all participating firms, the average total salary cost represents 44% of gross revenue (comprising 33% of fee-earner salaries (2017: 25%) and 11% of non-fee-earner salaries).

Even for the top five most profitable firms this ratio remains high at 42%. The tier 1 and 2 firms, which reported the highest profit per equity partner were more successful with gearing. These firms have fee earners of 8.57 FTE per equity partner in Tier 1 and 6.51 FTE per equity partner in Tier 2.

We note the successful use of non-equity partners, particularly in Tiers 1 to 4, which assist with improving equity partner income despite higher salary cost percentages (including non-equity partner salaries). One potential reason for the increase in salary costs could be that equity partners are retaining their ownership stake in firms, leading to a need to raise compensation and bonus payments for non-equity partners to retain them.

OVERHEAD COSTS

Overhead costs as a percentage of gross earnings varied significantly among the participating firms. The top five most profitable firms (Tier 1) managed to keep their overhead costs under 20%, and the next 5 most profitable firms (Tier 2) were 23%.

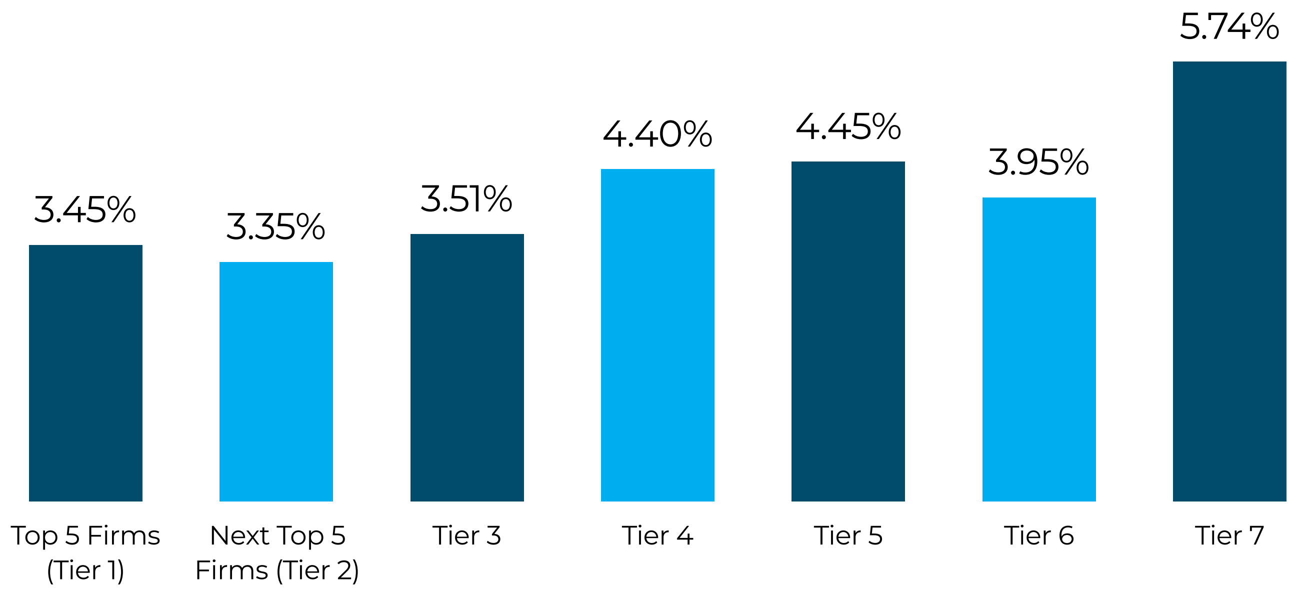
RENT

The average rent as a percentage of gross revenue stands at 6% across all participating firms. Both Tier 1 and Tier 2 firms maintain an average rent cost as a percentage of gross revenue of 4%. This confirms our view that firms should not spend in excess of 5 – 6% of gross revenue on occupancy expenses (including car parking).

IT & TELECOMMUNICATIONS

The average IT and Telecommunications costs (including depreciation on IT equipment) as a percentage of gross revenue for all participating firms have risen to 4.41%, up from 3.4% in the 2017 ALPMA survey. Tier 1 and tier 2 firms have managed to maintain their IT costs relatively low compared to the average. We expect this is due to economies of scale for these firms, as a result of their higher fee revenues.

AVERAGE IT & TELECOMMUNICATIONS COSTS TO GROSS REVENUE %



STABILITY IN NET EQUITY PARTNER INCOME

Despite the increase in salary costs, equity partner net income has increased for the top 10 firms from $635,381 in the ALPMA 2017 survey to $760,945. However, we note that this has been during a period of higher inflation. Salary costs as a percentage of gross revenue have increased faster than net equity partner income. On average, net income per equity partner across all participating firms is only 29% of gross earnings, this represents a decrease from 33% in 2017, highlighting the pressure on profitability within professional service firms due to higher salary costs.

These findings underline the importance for law firms to carefully manage operational expenses while seeking avenues to enhance revenue streams through the promotion of non-equity partners or reduced point equity partners.

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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 and overall effectiveness in work practices. In cases where a firm struggles with managing workflow, billing, and collection, it often signifies inefficiencies in other work processes.

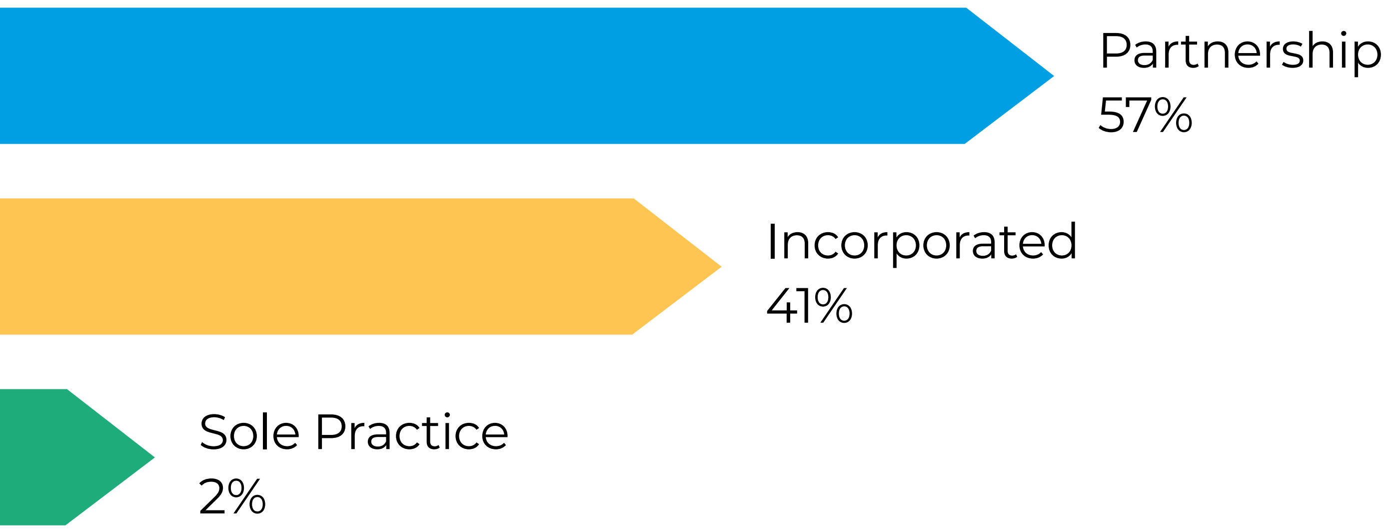
Our survey results reveal lockup ranges from 0.5 months to 6 months. The average lockup of all participants indicates that firms have 2.5 months' worth of fees tied up in debtors and WIP. In general, the more profitable firms also had slightly fewer lockup days.

CHARGE OUT RATES & BILLED HOURS

	Average Turnover per Equity Partner	Average Equity Partner Charge Out Rate	Average Equity Partner Billed Hours per Day
Top 5 Firms (Tier 1)	$2,393,062	$498	4.80
Next Top 5 Firms (Tier 2)	$1,843,877	$453	5.00
Tier 3	$1,501,344	$565	5.25
Tier 4	$1,511,489	$464	4.96
Tier 5	$1,188,154	$443	4.45
Tier 6	$1,007,780	$430	4.31
Tier 7	$1,057,892	$427	4.15

Interestingly, the average billed hours per day for equity partners don't seem to vary significantly across firms in tier 1 to tier 4. By incorporating an additional 100 billed hours per year for each equity partner (equivalent to approximately 2.2 hours per week across 45 working weeks) and assuming a charge-out rate of $500 per hour, this could generate an extra $50,000 in net profit for each equity partner if firms were able to modestly increase billed hours per day for equity partners.

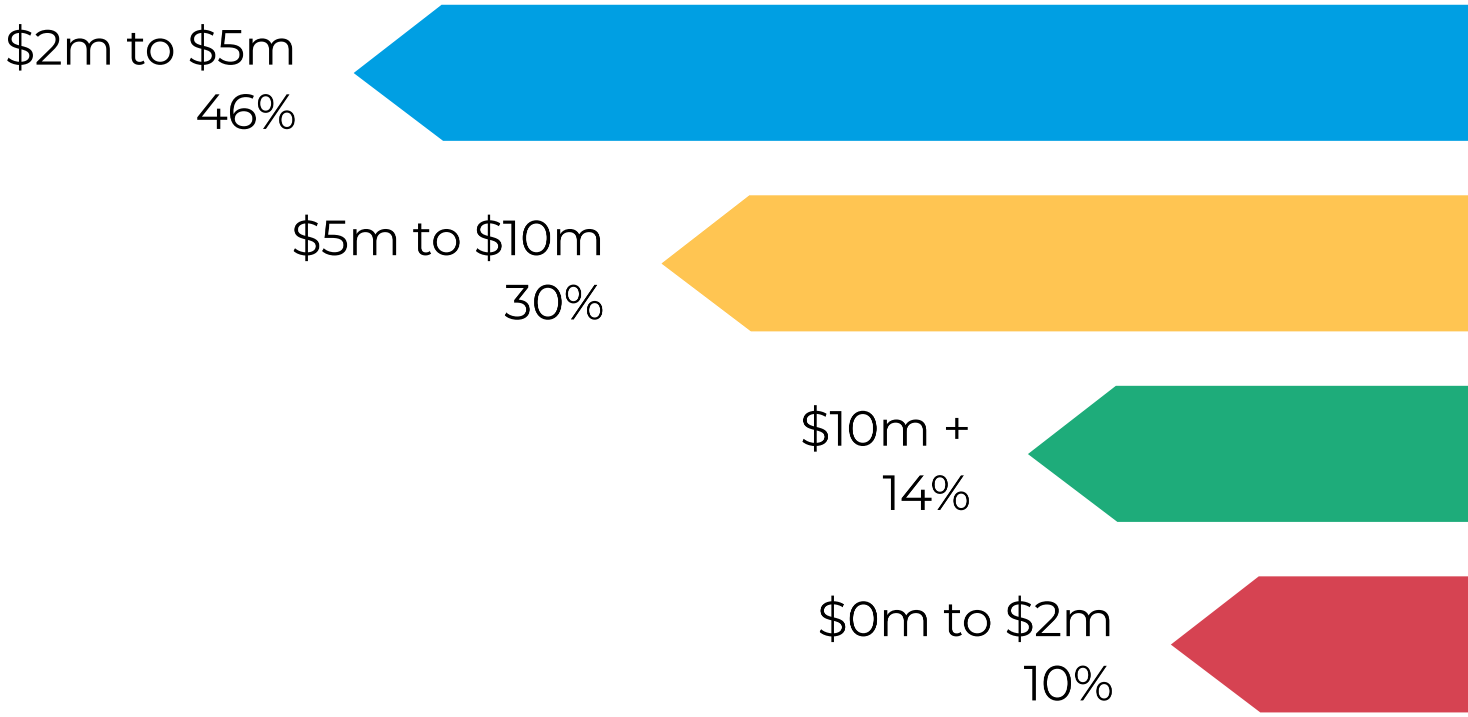
FIRM STRUCTURE OF SURVEY PARTICIPANTS



FIRM STRUCTURE OF SURVEY PARTICIPANTS CONTINUED

This year, 41% of participants are incorporated, making a notable rise from the 26% recorded in 2017. This surge in incorporation of legal firms was likely fueled by the increase in individual tax rates to 39% on income over $180,000 from 1 April 2021, while company and trust tax rates remained at 28% and 33%. However, the anticipated increase in trust tax rate to 39% from 1 April 2024, might dampen the drive towards incorporating firms moving forward.

FIRM REVENUE OF SURVEY PARTICIPANTS



On average, the practice areas that contributed the most to total revenue are residential conveyancing and estates, wills & trusts. This is probably the result of most participants being general practices.

TOP FIVE MOST PROFITABLE FIRMS

Among the top five most profitable firms (ranked by profitability per equity partner), there are two large firms with more than 75 staff, demonstrating that a highly geared model can work well. The remaining three are small to medium-sized firms comprising a sole practitioner, a two-partner firm and a three-partner firm. An efficient lower-geared model also works well particularly if equity partners have high productivity, which keeps the overall salary costs as a percentage of gross revenue lower than a larger firm.

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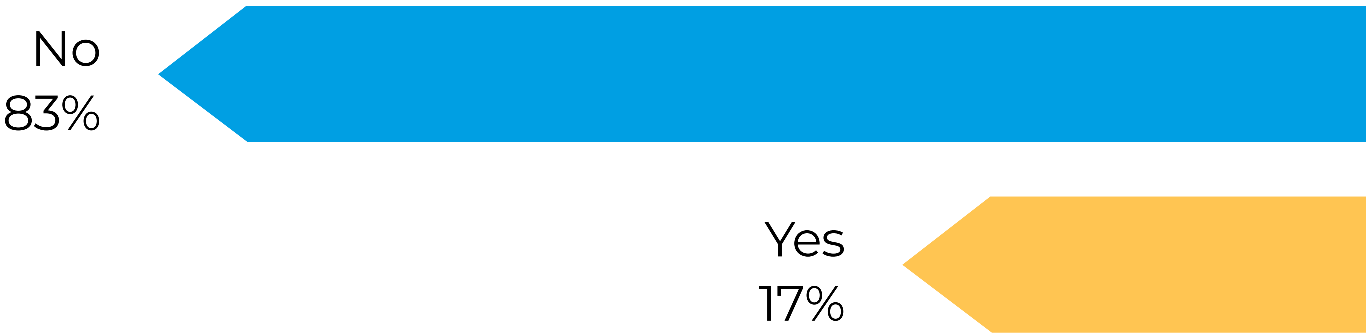
SET RETIREMENT AGE FOR EQUITY PARTNERS



Surprisingly 83% of firms have not set a retirement age for Equity Partners.

Larger firms were found to be more likely to set a retirement age. Half of all large firms reported a retirement age, compared to only 22% of medium firms and 7% of small firms.

Larger firms were more likely to report using any lockstep progression plans to equity partnership (83% of large firms, compared to only 52% of medium firms and 17% of small firms).

Larger firms were also more likely to currently have a documented strategic plan (83% of large firms, 59% of medium firms and only 37% of small firms).

ABOUT MOORE MARKHAMS

Moore Markhams Auckland is an independently owned firm in the Moore Global chartered accountancy and business advisory network. At Moore Markhams New Zealand we provide audit, accounting, tax and business advisory services.

Sam Bassett heads the Legal Business Development Unit for Moore Markhams New Zealand.

Sam and his team act for a large number of legal firms and barristers. He assists legal clients with firm valuation and mergers, partner admissions, and retirement, and consults with legal firms on ways to improve profitability. He also prepares economic disparity assessments and provides forensic accounting assistance to barristers, including giving evidence in court.

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ABOUT ALPMA

The Australasian Legal Practice Management Association (ALPMA) is the peak professional body for managers of law firms and legal departments in Australasia. ALPMA provides an authoritative voice on issues relevant to legal practice management.

www.alpmanz.co.nz
LinkedIn: Australasian Legal Practice Management Association

ABOUT IT SIMPLY

The team at IT Simply are trusted industry experts in the legal sector.

With a comprehensive list of professional technology services on offer, IT Simply are committed to delivering the highest level of service to New Zealand and Australian Law firms.

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