

Calculate Breakeven Point

The breakeven point is the lowest hourly fee attorneys can charge to cover a firm's budget. Calculating a breakeven point requires the following data:

- Your firm's monthly budget
- Attorneys' average monthly billable hours
- Seniority multiplier (if applicable)

Monthly Budget

The fundamental principles of microeconomics teach us that a firm's total costs should not exceed its total revenue. Your budget should account for the firm's total costs including rent, salaries, debt repayments, and operating costs. The breakeven point will help you find the minimum hourly rate an attorney can charge to generate enough revenue to match costs.

Billable Hours

It can be difficult to guess how many hours a particular attorney will bill in any given month, but, over time, averages can serve as a reliable indicator.

The best way to accurately predict the number of billable hours an attorney will have each month is to keep a running average of each attorney's monthly billable hours. Adjust the average down by as much as 10% based on your own risk aversion and/or predictable fluctuations.

Example:

Attorney	August Hours	September Hours	October Hours	Average	Adjusted Down 10%
Ron	96	86	82	88	79
Linda	95	128	56	93	83
Monica	146	115	73	111	100

TIP: There is probably an annual trend in your monthly billable hours. Fewer hours are likely to be billed around the winter holidays and some months may consistently be busier than others. Until you have a full year's worth of data, it is a good idea to adjust down 10% to ensure that there is enough revenue to cover short-run downturns.

If desired, this process can be replicated for all billable staff including paralegals, runners, and investigators. Tracking the time and expense of such service could be valuable to your firm's management and it would help the firm make more specific price disclosures to clients. However, bear in mind that fees are set in response to expenses. Subdividing fees is not likely to change the total cost of a case; it simply shifts the expenses to another employee.

Most firms use time-keeping software that makes it very easy to calculate an attorney's average monthly billable hours.

Seniority Multiplier

While it is almost universally recognized that people within the same position receive different levels of pay based on their seniority and performance, there are pros and cons to passing wage differentials on to clients. This should be determined bases on your firm's operational and management philosophy.

Without Seniority Multiplier

If the firm decides not to include seniority in fee calculations, divide the monthly budget by the total average monthly attorney hours.

	August	September	October	Adjusted Down 10%
Ron	96	86	82	79
Linda	95	128	56	83
Monica	146	115	73	100

Total Monthly Budget: \$30,000

Total Monthly Attorney Hours: 262

Firm's Breakeven Hourly Fee: \$115

This breakeven hourly fee can apply to all attorneys in the firm regardless of the number of hours they work or their seniority.

With a Seniority Multiplier

If your firm would like to factor seniority into your client's fees you will need to calculate a seniority multiplier and a base rate for attorney fees.

The seniority multiplier is the factor by which a senior attorney is compensated above the most junior attorney. You can find the multiplier based on existing rates or set them at this time.

To find the multiplier with existing rates, divide senior attorney's hourly fee by the most junior attorney's hourly fee.

	Hourly Fee	Multiplier
Ron	\$125	1.00
Linda	\$150	1.20
Monica	\$175	1.40

Alternatively, one could decide that, for example, Monica should command twice the fee that Ron (the most junior attorney) command. In that case Linda's multiplier would be 2.

Once the multiplier is found, the base rate can be calculated algebraically. The monthly budget should be equivalent to the sum of the product of each attorney's monthly hours and the seniority multiplier, times the base rate.

$$\begin{array}{rcl}
 \text{Budget} = & \text{base rate} * \text{sum} & \left(\begin{array}{l} \text{Ron's} \\ \text{average} \\ \text{hours x Ron's} \\ \text{multiplier} \end{array} \right) & \left(\begin{array}{l} \text{Linda's} \\ \text{average hours} \\ \text{x Linda's} \\ \text{multiplier} \end{array} \right) & \left(\begin{array}{l} \text{Monica's} \\ \text{average hours x} \\ \text{Monica's} \\ \text{multiplier} \end{array} \right) & \left. \vphantom{\sum} \right) \\
 \$30,000 = & \text{base rate} * \text{sum} & (79 \times 1.00) & (83 \times 1.20) & (100 \times 1.40) &) \\
 \$30,000 = & \text{base rate} * \text{sum} & 79 & 99.6 & 140 &) \\
 \$30,000 = & \text{base rate} * & (318.6) & & & \\
 \$94 = & \text{base rate} & & & &
 \end{array}$$

Now, to find each attorney's breakeven hourly rate, multiply the base rate times that attorney's seniority multiplier.

	Multiplier	Breakeven Hourly Rate
Ron	1.00	\$94
Linda	1.20	\$113
Monica	1.40	\$132

Conclusion

Breakeven hourly rates let your firm know what the minimum hourly fee should be to remain financially solvent. Calculating this point on a regular basis will help your firm be flexible and fair with clients while maintaining a firm financial footing.