How Law Firm Expenses Affect Your Legal Fees

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It takes money to make money. Running a legal practice is no exception. And, like any business endeavor, these costs should be recouped in your earnings.

Ideally, your practice should be a means to helping others with their problems. But, at the end of the day, a business needs to sustain both itself and the people who work to keep it afloat. And losing money to unrecouped expenses is a quick way to ensure a short shelf life for your business.

Look at law firm expenses before setting your fees

Any discussion regarding legal fees should start with the rules that govern your practice. Start with the American Bar Association's Model Rule 1.5, but be sure to follow the rules specific to the jurisdiction in which you practice.

From there, you can look at how certain circumstances of your practice can, and should, affect your rates.

So, how does the money you spend affect how and what you earn?

Client acquisition costs

Client acquisition costs are often overlooked by many businesses when first starting out. As romantic as it sounds, starting a business by no means guarantees that anyone will know about your business—nor will they associate any relevance to it and your services. It takes time and effort to acquire clients, and knowing what this entails is the first step to recovering these costs.

Client acquisition costs represent the time and effort you put into getting potential leads and converting those leads into paying clients. To find a rough estimate of that cost, you'll need to record all the costs, including your time, and any expenses incurred to acquire clients over a defined period of time. This might include entrance fees for networking events, online ad costs, or costs of dinners and/or drinks where you talked business with potential clients.

Divide your total client acquisition cost by the number of clients acquired, and you'll find the average cost for each client.

Keeping a record of these expenses is also key to determining profitability. For client acquisition in particular, knowing how much you earned from each client will also help you determine what efforts are paying off. If a client costs $1,000 to acquire, but they hire you for $5,000 worth of services, that's a great investment. If that same client hired you for only $500 worth of services—or didn't hire you at all—you'll know to question whether that type of client, or the means by which you acquired them, can be adjusted going forward.

Firm expenses

In addition to meeting client acquisition costs, law firms must also think about more concrete office costs. These are non-reimbursable costs that go into the everyday operations of your firm. Because they aren't reimbursable, these costs should be reflected in the fees you charge.

Non-reimbursable costs can include:

- Monthly rent
- Staff salaries
- Technology upkeep, including both hardware and software
- Regular office supplies
- Professional fees if working with an accountant or other consultant
- Bar membership
- Ongoing professional development
- Travel expenses
- Insurance

These expenses, along with your client acquisition costs, make up your cost to do business. This should be factored in when calculating the rates you charge.

One of the advantages of running a small firm is the reduced overhead compared to medium or large firm settings. When you're just starting out, working from a home office can be a way to avoid the cost of renting an office, and finding technology solutions can be a way to better manage multiple workflows.

Saving on expenses can mean being more competitive with other firms—and it can mean better profit margins for your practice. Additionally, introducing accounting software at your firm can help accurately track expenses. Learn more about legal accounting software

you can try for free.

Your salary is an expense

Whether you're a lawyer working as a solo or in a small firm, make sure to separate your personal profit goals from those of your firm. Ultimately, your salary should be considered a law firm expense that gets paid out before calculating profit.

Knowing how much you expect to make from working at your firm is key here.

Setting profit goals for your firm as a whole will help you to weather any ups and downs in business; it will also help you plan out goals for potential business improvements and growth in the future—which might include professional development opportunities, access to new tools and resources, or bringing on more staff.

Budget and account for expenses accordingly

You won't have any idea what you need to make before you know what you need to spend. Your service rates should reflect revenue projections that address the future of your business. Creating revenue projections, especially hopeful ones, helps you envision what the law firm of your future will look like.

Create a monthly budget and define monthly revenue projections around it. Figure out how many hours you need to work to meet your projections, and draw up fees that support that number.

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