

How to Lower Overhead Costs at Your Firm



Law firm overhead expenses are a big part of your firm's profitability, but do you know what your overhead percentage is? Do you know what your overhead costs are, or even what expenses are included in overhead costs?

The first step is understanding your overhead costs, then you can find ways to reduce them to make your firm more profitable. With a clear [financial picture](#), you can keep unnecessary costs down and position your firm for future opportunities.

What Are Overhead Costs?

Overhead costs are the expenses related to running your firm, specifically ongoing costs for general business functions. These are law firm expenses you would still have to pay even if you didn't produce anything within a period of time, such as rent for office space, accounting, software, insurance, and employee salaries.

Though often used interchangeably, overhead costs are different from operating [expenses](#). Also known as direct costs, operating expenses are the expenses

necessary to run your business or costs incurred in your day-to-day operations. These may include marketing expenses, labor costs, and expenses related to production.

According to [Law Crossing](#), the typical law firm spends 45 to 50% of the fee dollar on overhead expenses. Usually, these expenses are non-lawyer salaries or wages, rent, phone, supplies, or library costs.

Types of Overhead Costs at Law Firms

There are several types of overhead costs for law firms:

1. Fixed Overhead

These costs are costs that are the same regardless of time, profits, or activities, such as rent, insurance premiums, loan payments, government fees, or property taxes. These costs will be there whether you're selling legal services or not.

2. Variable Overhead

These costs are costs that will vary according to your sales volume. Typically, they increase as your sales go up and decrease as they go down, such as office supplies, marketing, and some utilities.

3. Semi-Variable Overhead

These costs are costs that you have to pay regardless of what's happening in your firm, but the amount can vary based on your activity. Some of these may include hourly wages, most of your utilities, and business vehicle costs.

How to Calculate Overhead Costs at Your Firm

Generally, the lower your overhead, the better your profit margins. However, in order to reduce overhead, you have to know how much your overhead costs you.

First, calculate all of your overhead costs for the month. This may include partner salaries, office rent, internet service, lighting and heating costs, office supplies, and technology subscriptions. Categorize them into fixed, variable, and semi-variable overhead costs.

Then, determine your monthly sales for legal services during that same time period and divide them by your overhead.

$$(Overhead/Monthly\ Sales) \times 100 = Overhead\ Percentage$$

For example, say your law firm has \$10,000 in overhead costs in a month and \$50,000 in sales. The overhead rate is .2 or 20%, so for every dollar the firm earns, 20 cents is spent on overhead.

If your percentage is high, you may need to adjust your overhead to turn a profit. If it's low, that's a good sign. Keep in mind that if your overhead is way too low, it could mean that you're compromising quality to keep costs down.

Track these calculations over a few months to track changes in your overhead costs. You should be able to identify cost drivers and potential areas for cost reduction with more visibility.

8 Ways to Reduce Overhead Costs for Law Firms

Here are some ways to reduce overhead costs for your law firm without sacrificing quality.

1. Streamline Administrative Processes and Workflows

Administrative processes can create a burden on your law firm that wastes time and money for labor. You can streamline these processes with [workflows](#) for billing, scheduling, document preparation, and more, relieving the burden and allowing your staff to focus on more important work.

2. Implement Legal Technology

Legal technology often involves an upfront investment that pays off considerably in better efficiency and productivity. A comprehensive [law firm software](#) offers features to streamline [lawyer time tracking](#), law firm invoicing, reporting, client and project management, reporting, and more.

3. Negotiate Contracts with Service Providers

The payment to service providers for technology, accounting, and other work can be a significant part of your overhead costs. Negotiate your service provider contracts to ensure you're getting the best prices and save money on the

services you need to operate your firm.

4. Adopt Remote Work to Consolidate Office Space

Allowing staff to work remotely, either full-time or part-time, helps you optimize your overhead for utilities and supplies. Depending on the schedule you implement, you may be able to reduce your office space to pay lower rent as well. As an added bonus, [top talent](#) is seeking out opportunities for remote work, hybrid schedules, and flexibility, giving you an edge in a competitive market.

5. Outsource Non-Core Functions or Tasks

There's plenty that can be outsourced at a law firm without compromising your core competencies, such as receptionist duties or document preparation. [Outsourcing](#) this work helps you save money and frees your staff to focus on mission-critical tasks.

6. Implement Paperless or Digital Document Management Systems

Going paperless is a great way to reduce costs related to physical paper, printing, mailing, and labor costs to have staff handle all these tasks. With [document management software](#) and invoicing technology, you can access all the information you need efficiently from anywhere with an internet connection, saving you a lot of time and resources spent on manual processes.

7. Evaluate and Optimize Marketing Spend

Law firms need strong marketing, and that takes money. However, you should be strategic in your approach to marketing, only allocating resources towards tactics that generate a high return on investment for your firm.

8. Conduct Regular Reviews of Expenses and Identify Cost-Saving Opportunities

Staying ahead of your finances and expenses is the best way to continually optimize and stay profitable. [Review your expenses](#) and [financial standing](#) regularly to determine your overhead percentage and find ways to reduce costs.

Final Thoughts on Reducing Overhead Costs at Your Firm

Reducing overhead costs is vital for maximizing profitability at your law firm. With simple changes like adopting cloud-based technology, optimizing your marketing spend, or outsourcing administrative tasks, your firm can effectively lower overhead.