The Best Law Firm Profitability Metrics to Track

Though you may have opened your own firm to practice law, at its core, a law firm is a business. Whether you're tracking overhead expenses, billing, or taxes, you have to pay attention to key law firm profitability metrics and what they mean for your firm and legal practice management.

How do you know if you're in the red or black? If you're hitting revenue goals for the quarter? After all, lawyers can lose up to [half their revenue](#) from billing mistakes, but key performance indicators (KPIs) offer insights into your business performance to grow and profit.

What Are Key Performance Indicators?

A [key performance indicator](#) is a data point that demonstrates whether you are reaching your business goals – a set of quantifiable measurements used to gauge a company's long-term performance. Taken as parts of your whole financial picture, you can determine if your law firm is moving in the right direction for your goals.

Like most data, KPIs start with a goal, such as "how many hours did my associates bill last quarter?" or "how many clients did we bring in this year compared to last year?"

Some examples of KPIs that law firms use include:

- Hours billed
- Revenue for the quarter or year
- Number of invoices submitted and paid
- Number of new clients acquired

What Is a Metrics Dashboard?

A metrics dashboard is where you find all your relevant KPIs in one centralized location. At a glance, you can see where your law firm stands from a business perspective, including whether you're making money or how much value you're deriving from talent.

Your metrics dashboard also enables deeper analysis using analytics, which track your KPIs over time. With analytics, you can evaluate the trends and patterns of your business over a specific timeframe and create new goals based on the information.

In short, a dashboard gives you a view of your business in the short and long term.

Common Methods Law Firms Use to Track Metrics

Law firms vary in how they track metrics and KPIs, but most use the following methods:

Manual Tracking and Data Entry

Though common in the legal industry, manual tracking and data entry is the least efficient and most error-prone of all the methods. It's easy for associates to forget how many hours they've billed or how many clients they've spoken to in a given timeframe. Manual tracking and entry also [takes time in itself](#), pulling you or your staff away from revenue-generating activities.

Practice Management Software

Practice management software offers a myriad of benefits for your law firm, including robust, customizable, and easily shareable reports to evaluate your firm's financial health. Software with a centralized dashboard keeps all the information in one place, including key financial reports like a balance sheet or income statement.

Specialized Legal Analytics Tools

Specialized legal analytics tools can be helpful for visualizing data trends and predicting outcomes, but it doesn't necessarily give you the KPIs you need to get the feedback necessary for rapid business decisions.

Outsourced Metric Tracking and Reporting to Third-Party Providers

Outsourcing the work for metric tracking and reporting to third-party providers is a great way to save time, but it adds some complexity. There can be security concerns or communication issues, not to mention the added costs.

How to Organize Your Dashboard

Dashboards can be a huge help to your firm, but they're ultimately just a tool. You have to set up your dashboard properly to get the most out of it.

Identifying Relevant Law Firm Profitability Metrics

There are virtually endless metrics you can track in your firm, but that's not a good use of your time. Choosing your metrics should be based on the goals you have and the questions you want answered. If you're not sure, start with the common law firm KPIs and go from there.

Grouping Metrics Based on Categories or Areas of Focus

Once you have a list of metrics, categorize them based on different areas of focus like client management, financial performance, case management, staff performance, or marketing efforts. This will help you organize your dashboard to get the information you want.

Designing a Visually Appealing and User-Friendly Dashboard Layout

A visually appealing and user-friendly dashboard is key for the effectiveness of your metrics tracking. Use tools and features like labels and data visualizations like bar charts and line graphs to make data trends easier to understand – and explain to other stakeholders.

Customizing a Dashboard to Suit Your Specific Needs and Preferences

A robust legal practice management software platform will have a customizable dashboard that reflects the specific needs of your firm, such as custom tags, real-time data updates, and benchmarks or targets based on industry data. These features exist to make your experience easier, so use them to your advantage.

5 Financial Metrics Law Firms Should Track

- Revenue and profitability metrics. This is your bottom line. This is the simplest, most critical metric that needs to be top of mind at all times.
- Billing and collection metrics. It sounds obvious, but keeping track of your bills is a critical operational need that needs to constantly be monitored.
- Expense tracking and management metrics. Expenses may change depending on what is happening with the business. For example, your marketing budget may need to be expanded, or heating and cooling during the summer and winter months. All of the items that need to be paid for to keep the business running need to be tracked under expense metrics.
- Utilization and realization rates. How much are you actually able to bill, and how much of that billing are you able to translate into revenue? These ratios can tell you a lot about how much of your efforts and tasks are profitable.
- Client acquisition and retention metrics. This is perhaps the second most important metric besides profitability. Clients drive revenue, and long-term clients equal money in the bank. Knowing how many clients you have and how many clients you are keeping is a key component of maintaining the viability of your business.

Using Bill4Time's Reporting Dashboard to Simplify Metric Tracking

Bill4Time's legal practice management [reporting](#) dashboard features customizable options to prioritize the data that matters most. It's also user-friendly – all you have to do to set up your dashboard is type, click, and drag. Consider what you want to prioritize, whether it's time and expenses, client management, or other information.

When you need to evaluate your data, you can use the reporting function to look at the performance of your chosen metrics over time. If you need to share that information, you can export the raw data as a .xlsx or .csv file.

Gain Insights into Your Firm

Running a law firm isn't as simple as just practicing law. You have to pay attention to the business side of things, which includes metrics and KPIs that indicate your firm's overall health. Law practice management software is a crucial component to organize your data in an easy-to-use dashboard that keeps it at your fingertips.