

5 critical law firm KPIs

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# LAW FIRM MANAGEMENT

SPRING 2026


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# 5 critical law firm KPIs

For nearly two decades, U.S. law firms have generally seen steady profit growth. Yet traditional productivity metrics have become less reliable. This growing disconnect is prompting many law firms to look beyond hours-based measures and adopt additional key performance indicators (KPIs) to better assess their financial health.

## THE CASE FOR A DIFFERENT APPROACH

According to the Thomson Reuters Institute, the average number of hours billed per lawyer per month has generally trended downward since 2007, even as law firm profits have continued to rise. This divergence underscores a key reality: While hours remain an important revenue input, they no longer fully explain profitability.

Sustained rate increases, changes in practice mix, improved leverage and tighter cost control are among the factors driving this shift. Additionally, the growing adoption of artificial intelligence (AI) further underscores the need for better measures of attorney and firm performance. AI enables attorneys and support staff to complete previously labor-intensive tasks in a fraction of the time, and, not surprisingly, is having a seismic effect on the legal industry.

## KPIS TO CONSIDER

For firms evaluating how best to respond to these changes, the following five KPIs are worth considering:

**1. Client acquisition cost (CAC).** CAC reflects the amount a firm spends to acquire each new client.

> CAC = total marketing expenditures / number of new clients

Calculating CAC separately for each of your marketing channels (for example, referrals, networking, thought leadership content and online advertising) helps you better evaluate each one's effectiveness. This approach makes it easier to identify which channels are driving profitable growth and which may warrant reduced investment.

**2. Revenue per matter (RPM).** As the name suggests, this KPI measures your average revenue for each matter that comes through the firm.

> RPM = total revenue / number of matters

Similar to CAC, you calculate RPM for each practice area to identify the most profitable and the lagging areas. This information can guide



## MEASURING CLIENT SATISFACTION

Financial and productivity metrics aren't the only important KPIs. Client satisfaction is also vital.

To get a handle on it, many firms are replacing lengthy surveys and sentiment measures from social media and online reviews with Net Promoter Score (NPS). This widely used customer loyalty and satisfaction metric measures how likely customers are to recommend a company, product or service to others. So, for a law firm, you might ask: "On a scale from 1 to 10, with 1 being not at all likely and 10 being extremely likely, how likely are you to recommend our firm to family, friends or colleagues?"

Clients who reply 1–6 are "detractors," and those who respond with 9 or 10 are "promoters." The NPS score is calculated by subtracting the percentage of detractors from the percentage of promoters. A score above 20 is generally considered good, and 70 or higher is exceptional.

To make the most of your NPS score, include a follow-up question such as, "What's the primary reason for your rating?" The combined results can highlight areas where you're gaining fans and where you're falling short.

your revenue projections, pricing policies and decisions about which areas to expand through investment and marketing.

**3. Collection rate.** Strong billing numbers can be misleading; a more meaningful measure is the percentage of those fees the firm collects.

> Collection rate = (amount collected / amount billed) × 100

Delays in collections can force firms to carry client balances longer than intended. This strains cash flow and can create unfavorable payment expectations. Ideally, you want a collection rate of at least 95%; a rate below 90% is a red flag that requires action.

**4. Modified utilization.** Utilization rates have long been used to assess an attorney's productivity.

> Traditional utilization rate = (billable hours / total recorded working hours) × 100

In today's work environment, this formula is often less effective. To remain useful, utilization measures should account for time spent on activities such as AI-assisted tasks, remote work and digital collaboration on platforms such as Teams. Relying solely on billable hours no longer provides a complete or accurate view of productivity.

**5. Modified return on investment (ROI).** A broader approach is also necessary to evaluate ROI.

> Traditional ROI = [(net profit – cost of investment) / cost of investment] × 100

The formula's components aren't as straightforward as they once were. Many businesses, for example, struggle to calculate ROI for AI investments. Efficiency gains often take time to materialize, and some benefits, such as client satisfaction (see sidebar) and the impact on growth, can be difficult to quantify.

### TURN METRICS INTO INSIGHT

There's no universal set of KPIs that's right for every law firm. You should consider which KPIs are best suited to your circumstances, including your firm's size, practice areas and strategic plans. Your financial advisor can help you select appropriate KPIs, set targets, monitor your progress and leverage the insights to get ahead. •

# Rethinking legal pricing

## THE RISE AND EVOLUTION OF SUBSCRIPTION BILLING

Hourly billing has traditionally dominated legal pricing, but its limitations have fueled firms' interest in alternative fee arrangements. In particular, a growing number of firms are adopting subscription billing, which has evolved from an experimental concept into a more refined and flexible model for legal services.

### SUBSCRIPTION BILLING EXPLAINED

Subscription billing lets clients pay a flat monthly or annual fee for a defined set of legal services, such as routine advice, document review, compliance guidance, contract support and strategic planning. Firms tailor the scope to their capacity and clients' needs.

Large firms have offered subscription-style arrangements to enterprise clients for years, but now more firms are making them available to small businesses, startups and individuals. These clients often face recurring legal needs but may hesitate to seek help because of unpredictable costs. Subscription billing solves this by providing clarity and consistency.

### WHAT'S THE APPEAL?

Predictability is a major benefit. Clients know what they'll pay each month, which makes budgeting easier and encourages them to seek advice earlier, before issues escalate. This transparency often leads to higher satisfaction and stronger long-term relationships.

Firms win with recurring revenue, steadier cash flow and reduced collection needs — benefits especially valuable for small practices. Subscriptions incentivize efficiency, shifting the focus from billable hours to delivering measurable value.

Subscriptions provide ongoing access to legal counsel, helping position attorneys as trusted advisors. Additionally, regular engagement helps attorneys anticipate risks and proactively support clients.

### HOW SUBSCRIPTION BILLING IS EVOLVING

As subscription billing matures, firms are refining and expanding the model in several notable ways.

*Tiered and modular plans* are becoming increasingly common. Rather than offering a single subscription, firms are creating multiple tiers — such as basic, standard and premium — each with different service levels. Some firms also allow clients to add specific modules, such as employment compliance or intellectual property monitoring, for an additional fee.

Another trend is the shift toward *value-based and outcome-aligned pricing*. Where permitted by applicable ethics rules, some subscriptions might incorporate incentives tied to client goals or milestones. This approach aligns the firm's success more closely with the client's outcomes.

*Technology* is also playing a larger role. Firms are using data and analytics to better understand



client usage patterns, forecast workload and price subscriptions more accurately. Client portals and dashboards allow subscribers to track usage, submit requests and manage their plans with greater transparency.

Many firms are also adopting *hybrid pricing models*. A subscription may cover routine, predictable work, while larger or more complex matters are priced separately using flat fees, capped fees or success-based arrangements. This flexibility makes subscriptions accessible to a wider range of clients.

## MANAGING THE RISKS

Subscription billing isn't without challenges. Onboarding new clients can front-load work, as they immediately seek to resolve long-standing issues. To manage this, firms should assess new clients' needs in advance, allocate sufficient resources for the initial stage and monitor workload to avoid burnout.

Additionally, utilization may vary among subscribers, placing uneven demands on the firm's resources. To mitigate this risk, firms should establish clear service definitions, set response-time expectations, define usage limits in engagement letters and communicate boundaries to clients. To ensure subscriptions remain profitable and guide future pricing adjustments, many firms still track time internally.

## GETTING STARTED

For firms considering subscription billing, scalability is critical. Determine how many subscribers your firm can realistically support and which services can be delivered consistently. Establish rules in advance, such as minimum commitment periods, to offset onboarding demands.

Client education is another top priority. Even clients who dislike hourly billing may be hesitant to switch to a new model. That's why it's critical to explain how subscription pricing works, what's included and how it benefits them.

## EVALUATION IS CRITICAL

Subscription billing provides a client-focused option to hourly billing — deepening relationships, delivering steady revenue and supporting a more sustainable practice. If you think it might be a good fit, evaluate whether and how adopting a subscription model could benefit your firm and clients. •

# Is your firm asking the right questions about succession planning?

Succession planning is often treated as a future concern for law firms — something to address when retirement is imminent or a senior partner signals an exit. In reality, delaying succession planning can expose firms to unnecessary financial risk, leadership gaps and client disruption. A proactive approach is essential to protecting firm value and ensuring long-term stability.

At its core, succession planning addresses three critical questions: Who'll lead the firm in the future? How will ownership transition? And how will client relationships be maintained throughout change? Firms that lack clear answers often struggle with uncertainty that affects profitability, morale and strategic direction.



## FINANCIAL STABILITY AND FIRM VALUE

From a financial standpoint, unplanned transitions can be costly. Senior partners frequently account for a disproportionate share of billable hours, client relationships and institutional knowledge. An unexpected departure — due to retirement, disability or other circumstances — can result in sudden revenue disruption.

Advance planning allows firms to model financial outcomes, structure partner buyouts responsibly and maintain adequate cash flow during ownership changes. It also enables firms to address tax implications, compensation adjustments and capital requirements in a measured way, rather than under pressure.

Succession planning also plays a direct role in firm valuation. Whether a firm anticipates internal ownership transitions or is considering future merger opportunities, continuity matters. A documented plan outlining leadership development, equity transfers and governance signals organizational strength and reduces perceived risk. Firms without a clear succession strategy may find their value discounted or their options limited.

## CLIENT CONTINUITY AND LEADERSHIP DEVELOPMENT

Client relationships are another critical consideration. Clients expect consistency and confidence in their legal advisors. A thoughtful succession plan includes a gradual transition of client relationships, allowing successors to build trust well before a senior partner steps back. This approach helps protect revenue streams and reinforces client loyalty.

Succession planning also supports leadership development and talent retention. Clear pathways to ownership and leadership can improve engagement among younger attorneys and future partners. When attorneys understand how and when they can assume greater responsibility, they're more likely to invest in the firm's long-term success.

Importantly, succession planning isn't a one-time exercise. It should evolve as the firm grows, leadership changes and market conditions shift. Regular reviews help ensure that assumptions around retirement timelines, partner performance and firm goals remain realistic and aligned with current circumstances.

*In today's competitive legal environment, succession planning is no longer optional.*

Trusted advisors can provide valuable perspectives throughout this process. Objective analysis, financial modeling, and coordination with tax and compensation strategies can help law firms design succession plans that are both practical and sustainable.

In today's competitive legal environment, succession planning is no longer optional. Firms that address it early are better positioned to manage transitions smoothly, preserve firm value, and provide continuity for clients and staff.

## MOVING FORWARD

If your legal practice hasn't recently reviewed its succession plan — or doesn't yet have one — now is the time to start. Contact your financial advisor to discuss how succession planning can support your firm's fiscal health and long-term goals. •

# Why nexus should be on every law firm's radar

State tax authorities are becoming increasingly aggressive in pursuing income, franchise and gross receipts taxes from multistate businesses. Law firms that assume their tax obligations are limited to their home state might be surprised to find that other jurisdictions may take a different view.

## THE EXPANDING CONCEPT OF NEXUS

For state tax purposes, nexus generally refers to the connection between a taxpayer and a jurisdiction that allows the state to impose tax. Each state sets its own standards for the level of activity that creates nexus.

Historically, nexus was based primarily on physical presence. Without an office or other in-state footprint, a business was generally not subject to tax. Over time, however, many states adopted economic nexus standards, asserting taxing authority based on a business earning income from in-state sources. The thresholds that trigger economic nexus vary by state.

Both physical and economic nexus standards have continued to expand. Sending an attorney into another state to provide legal services may establish nexus, and the rise of remote work has increased exposure. Even a single attorney working from home in another state can trigger tax obligations.



In some states, having an attorney provide services or work remotely may establish nexus — particularly if it's recurring or revenue-generating. Other states apply a more nuanced, fact- and circumstance-based analysis. States may also assert nexus when legal services relate to in-state property, even if the work is performed elsewhere.

## DETERMINING WHERE FIRM REVENUE IS TAXED

If a firm has sufficient nexus with a state, its tax liability will depend on that state's apportionment rules, which determine how income is divided among states. A key factor in most apportionment formulas is the amount of revenue sourced to the state. Generally, states use one of two methods to determine the amount of revenue:

- Market-based sourcing assigns revenue to the state where the client receives the benefit of the services, though states differ on how they define that location, and
- Cost-of-performance sourcing allocates revenue based on where the costs of performing the services are incurred, either proportionally or entirely to the state with the greatest share of those costs, which can be difficult to track.

If a firm is in a cost-of-performance state but provides services only to clients in a market-based state, both states could theoretically claim 100% of the firm's revenues for tax purposes. However, reciprocity agreements or tax credits may preempt double taxation.

## MOVE FORWARD WITH CONFIDENCE

Managing multistate tax obligations can be complex. Staying ahead of evolving nexus and filing rules through proactive planning and experienced guidance is key to avoiding costly penalties and interest. Contact your tax advisor for help. •

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