

Happier Clients, Higher Profits

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Oregon State Bar Center Columbia Rooms A & B 16037 SW Upper Boones
Ferry Road, Tigard, OR 97224

Session 1

*How to Run a Profitable Business:
Key Numbers You Need to Know*

Overview

An ongoing challenge faced by law firms is how to be a fierce client advocate and a great business operator at the same time. Billing management, particularly, is a major problem, with a recent Georgetown Law study estimating that law firms collect only 71 percent of the work they perform.

Law firms can solve this problem by gathering and analyzing data and using it to determine key performance indicators (KPIs).

We'll take a look at nine vital numbers law firms should be looking at and six analytics reports or KPIs - Origination, Allocation, Matter Budgets, Productivity Per User, Productivity Per Matter, and Collections - to determine the health of the firm and to identify areas for improvement.

We'll discuss how to set objectives, introduce changes, and track your progress.

Nine Vital Numbers for Your Law Firm's Health

If you want to take superhuman care of your clients, you need to run an efficient business. You need to not hate numbers. To run an efficient business, you need to know your vitals.

Do a Checkup to See if Your Business is Healthy

Vital numbers for business are what are known as key performance indicators, or KPIs. KPIs are like blood pressure, temperature, pulse rate and respiration rate for the body. They let you know succinctly if you're ill or healthy. KPIs may vary based on what type of firm you run. For the most part, though, there are common measurements most attorneys should observe.

Cash position. Your cash position is how much liquid cash you have available to run your business. Get into the habit of checking yours every day. It's important to know what money is moving in and out of your business. This movement of funds is your cash flow, and understanding it is the most critical aspect of running a business.

Cash is oxygen for a business. You need to be focused on all aspects of managing it, including knowing what vendors you're paying and when, how you can collect on your work more quickly, and what revenue you can expect coming down the pike. Not only will you understand your business better, but you'll probably sleep better at night.

New leads per month. "Lead" is a four-letter word to many law firms. A lot of lawyers prefer the term "prospective clients." Guess what? They're leads. If you want a steady stream of new business, then you should start measuring how many leads you create each month.

New clients per month. If you know how many new clients you typically engage per month, and you're tracking your monthly lead creation, plus you have some insight into your cash flow, then congratulations! You have more insight into your law firm's business (and future business) than 90 percent of all practices.

It's a good idea to use a spreadsheet to keep track of your trends on an ongoing basis. If Excel frightens you, you need to get past that fear. Spend 10 minutes watching a basic tutorial video on YouTube and teach yourself one of the most powerful business tools on the planet.

Case volume. Case volume is simply the number of cases you have active at any given time.

Case value. Case value is how much a case is worth from a dollar perspective. This could be a flat fee amount, an hourly billing amount, or a predicted outcome

for a contingency case. Let's go one step further: When you multiply case volume by case value, you have an idea of how much your current work will bring in. Then you can assess if you want to bring more revenue into the business, which can be accomplished by raising rates (increasing case value) or amping up the number of cases you handle (increasing case volume).

Matter budget. Whether you bill flat fee, contingency or hourly, knowing how much work you're putting into a matter versus what you desire to put into it is critical. It keeps things from spiraling out of control and allows you to identify which cases are better economic performers than others.

Utilization rate. Your utilization rate is the amount of time you bill versus your target hours (the amount of time you are supposed to bill). If your weekly billable target hours are 40, and your actual billable time for that period is 36 hours, your utilization rate would be 90 percent. Tracking utilization rates across timekeepers in your firm allows you to set performance-based goals, reward top billers and deal with poor employees.

Realization rate. For some law firms, it is important to track all time, not just billable time, which helps partners understand the efficiency of their staff. Your realization rate is the amount of billable hours you capture versus the total hours you capture. For example, if you capture 50 total hours worth of time in a week, and 40 of those hours are billable, then your realization rate is 80 percent. Realization helps you understand if you're doing a lot of administrative work versus actual legal work.

Collection rate. Collecting money for their invoices is a big problem for law firms, but many don't understand how well or poorly they are performing on that critical issue. Your collection rate is the amount of money you collect for your invoiced work. The best law firms have collection rates of over 90 percent.

Key Performance Indicators (KPI's) and the Reports They Fuel

For this exercise, we'll define KPI's as critical numbers that help a firm define and measure progress towards overall goals. We focus primarily on financial numbers and percentages that should help boost your business awareness in a small to medium sized firm. It's not meant to be an all inclusive list of all metrics possible, but to get law firm personnel to think about generating and organizing reports and financial data and structuring them to help drive the growth and success of their firm.

What a KPI must be:

It must reflect the firm's overall strategy and goals. There may be numbers that you keep track of that don't necessarily apply to this but in general it's better to keep your KPI's focused as measurements toward the big picture.

They need to be keys to the firm's success. Achieving growth or improvement in these numbers will serve as a general beacon for your firm as you navigate and grow.

It has to be quantifiable and measurable. Your most important numbers need to be easily trackable. They need to be examined on a regular basis. Just like Rome wasn't built in a day, KPI's aren't something that typically improve overnight. With steady attention, however, they will help reveal some things you can't really see on the surface by looking at your firm and help show you the way to improving certain aspects of your firm.

Reports are vital to managing progress at your firm. A great way to think of reports is to consider them a lever. Imagine trying to lift something very heavy and how much easier it would be to lift it using a lever. Trying to dig down into KPI's without using reports as a lever is less than optimal. It's difficult to keep having to dig into excel or into a mass of files you have stored in a cabinet or in the cloud. You want, ideally, the power to pull all that information together and have it at your fingertips.

Origination Report

I want to see which firm members are bringing in clients.

KPI: New Clients Per Month

Bringing on new clients and cases is imperative to the growth of any law firm. While smaller firms generally consider bringing on new clients a team effort, larger firms maintain a system of recognition to make sure that employees are getting the credit they deserve. It's not out of the question for partners to leave firms and take clients with them if they feel they are not being fairly recognized and compensated.

Firms can use Origination Reports to see who is bringing in clients for the firm, what payments have been brought in by the client, and what portion of those payments have gone towards fees and costs.

Allocation Report

I want to see the allocation for all payments received during a particular time period.

KPI: Billable Revenue Assignment per Attorney per Month.

The Allocation report shows the amount of client payments your attorneys bring in. This makes it easy to calculate payouts, and supports payroll structures that pay attorneys a percentage of revenues.

Using the Allocation Report, you can figure out how to pay your attorneys by seeing the amount of client payouts your attorneys bring in. Benchmark and compare. This makes it easy to calculate payouts, and supports payroll structures that pay attorneys a percentage of revenues and shows you who is bringing in the business.

Matter Budget Report

I want to assign how much billable time I will spend on a particular matter.

KPI: Average Time and Expense per Matter

Certain matters require a budget to be set due to specific client needs. Your firm may encounter a client who is uneasy about moving forward with a case due to budget concerns. The client may agree to a retainer, but is anxious about overspending and needs the ability to maintain financial stamina to see a case all the way through.

The Matter Budget Report gives you control over this fear by setting a limit on the amount of money that can be billed for the matter. You can assuage your client's worry with this simple and efficient report that will show you how much has been billed and how close you are to exceeding your client's budget.

Productivity Per User Report

I want to see how members of the firm are utilizing their time, how much revenue they're generating, and their average billable rate.

KPI: Utilization Rate and Realization Rate

How are attorneys, paralegals, and other timekeepers at the firm spending their time each day? How much is spent on billable versus non-billable matters or on administrative functions? Which attorneys at the firm are getting their billable hours written off? Did your new associate meet her billable hour requirement? Great! But, wait a minute...her average rate dipped, impacting her billing rate.

The Productivity per User report lets the firm see how timekeepers are tracking and managing their time, how much billable versus non-billable time attorneys and other employees are recording, and other meaningful insights into how the firm's key money makers are spending their days. Get the entire firm on board by also tracking how non-billable staff are allocating their time to identify productivity wins and problem areas.