Wolters Kluwer

When you have to be right

# Metrics for the successful law firm

## Identifying your priorities and setting a strategy for growth

# Metrics for the successful law firm

In today's unstable market, growing a successful law firm can be challenging. Even though you're willing to put in the hard work, it's difficult to keep up with your clients' rapidly changing needs, maintain a healthy profit margin and ensure the firm is working in the best way possible. And that's not to mention your limited time to implement change.

To remedy this challenge, firms need to adopt a systematic way of tracking metrics that measure performance and effectiveness. Tracking metrics that are specifically tailored to your objectives can provide you an early warning when important factors are out of range. Metrics can help you identify where you need to invest time and energy into changing so that you can enjoy increased profitability. And, they can help you monitor that your efforts are driving growth.

In short, metrics can give you the focus you need to ensure you're dedicating time to what matters most.

### Which metrics do we need to track?

While every firm will select metrics that reflect their specific objectives, in this eBook we've collected the **must-track metrics** for meeting these four strategic goals:

- Keeping the business going with a healthy client base
- Increasing profitability
- Reconfiguring your organization to make the most of the time you have
- Taking control of earnings and getting paid

While this isn't intended to be an exhaustive list of metrics, it will give you a starting point to start to measure your firm's efforts in these key areas. It's also important to keep in mind that no single metric will tell the whole story; rather, a combination of financial, operational and business metrics need to be looked at collectively to make informed decisions.

# Goal 1: Keeping your business going with a healthy client base

Keeping your business going can feel like a constant challenge. In today's online world, you can no longer rely on word of mouth to get your firms' name out there, competition from non-traditional firms is increasing and clients are becoming more and more demanding, always expecting more for less.
Is your firm doing enough to keep up with your client' rapidly changing needs? The following metrics can help you keep your finger on the pulse of how well your firm is doing to attract and retain clients.

### Client growth rate

The ratio of the number of new clients (i.e. first matter was handled in the past 12 months) to the total number of active clients over a set amount of time (i.e. last 2 years or 5 years).

### Top client growth rate

The amount of fees billed to top 10 clients (number of clients can be adjusted depending on your firm) in the past 12 months divided by the amount of fees billed to the top 10 clients in the prior 12 months.

### Percentage of dormant client

The number of clients that the firm has not handled a matter for in the past two years (amount of years can be adjusted depending on your firm) to the number of total clients.

### Client retention

The ratio of clients billed over a period of time (i.e. last 12 months) to the total clients that had been billed in the past time period (i.e. previous 12 months).

### Number of matters per client

The ratio of number of matters billed to the number of clients billed. The number can illustrate cross-selling success and indicate that the firm is doing a good job at fostering the relationship.

# Goal 2: Increasing profitability

At the end of the day, your ultimate goal is to develop your business and improve your profitability. But in today's marketplace, maintaining a healthy profit margin is becoming more difficult, especially as firms try to address client concerns about cost.

Tracking profitability is important for understanding which factor most impact the bottom line. For example, a certain practice area or client may be more profitable than another. Knowing where your firm is most profitable (and where you are losing out!) can help you prioritize efforts and create a unique position in the market, boosting your competitiveness.

## Profitability

Total revenue minus total expenses. Calculating total expenses can vary depending on your firm, but will likely include both direct cost (like salaries, payroll taxes, etc.) and indirect costs (like occupancy expenses, support staff salaries, equipment costs, etc.).

To focus more sharply on profitability, you can also drill-down by practice area, partner, client or full-time equivalent timekeeper (FTE).

Improving profitability requires a combination of sound expense management and a solid plan to increase revenues by working harder and smarter. To do this, firms need to improve how they leverage staff and increase realization rates, which we will discuss next.

# Goal 3: Reconfigure your organization to make the most of the time you have

To remain competitive, law firms need to leverage staffing in the most strategic way possible. Even if you're a solo lawyer, it's important that your time is being used on what matters most. By analyzing where it makes sense to outsource or delegate work to paralegals or junior lawyers who bill at low rates, firms can benefit from increased profitability. Furthermore, the time of senior lawyers can be better spent on more strategic work.

Reconfiguring your organizing can help you gain control over time management and make changes to increase profitability. To better address these issues, firms can analyze how well they are leverage by tracking the following metrics.

### Average fee

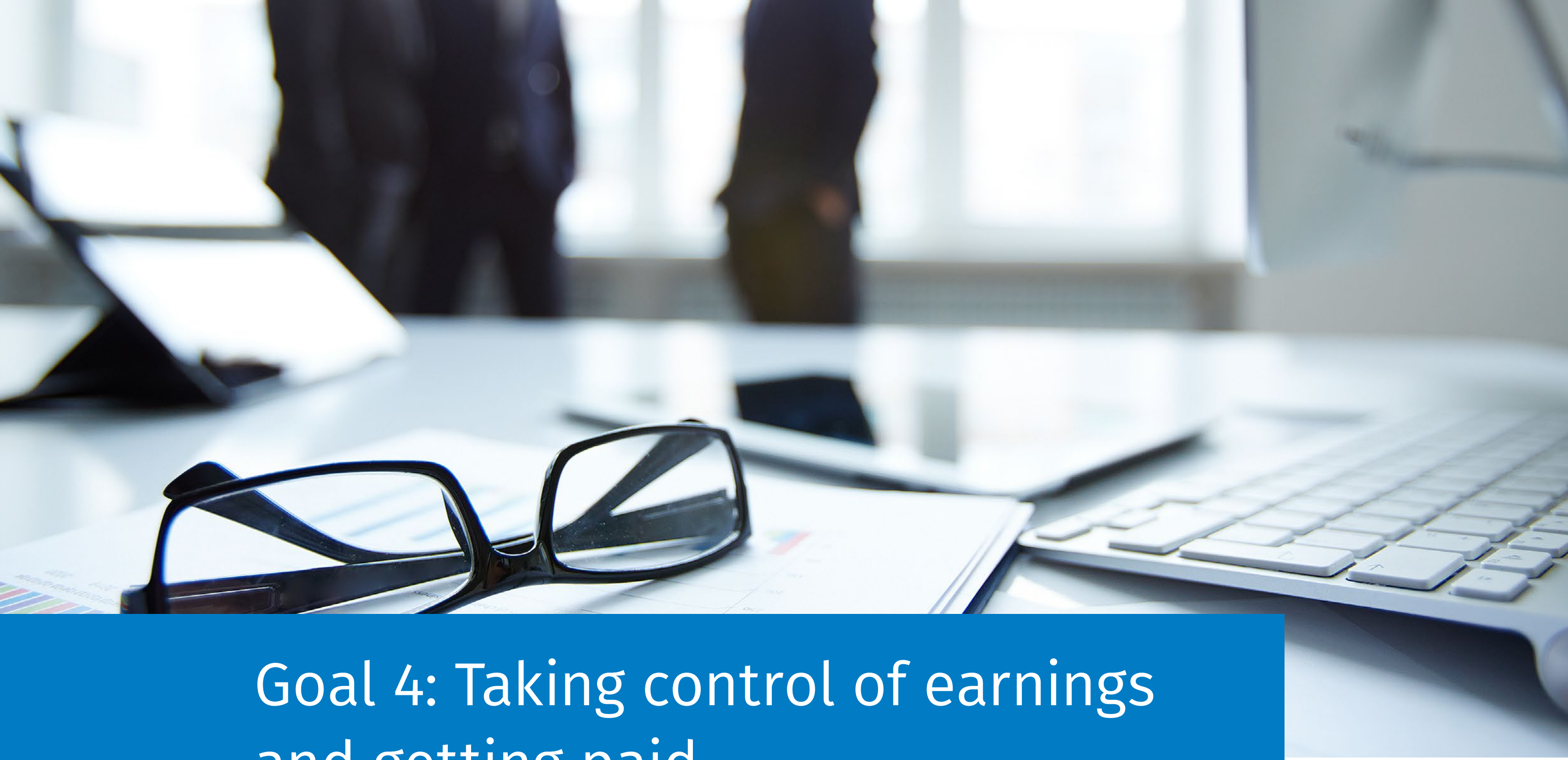
Tracking the average fee can help identify trends and alert you to possible productivity issues when values fall out of range. Average fee can be calculated:
- per client: The fee revenue for the year divided by the number of clients billed during the year.
- per matter: The fee revenue for the year divided by the number of matters billed during the year.

### Average number of lawyers per client

The ratio of individual lawyers who generate working fees to clients on average. A change in average number of lawyers per client can alert you to work inefficiencies.

### Utilization rate

The number of billable hours worked divided by the number of unbillable hours in given week for each FTE. For example, if a lawyer works 80 hours to achieve 30 billable hours, the utilization rate is 37%. Analyzing utilization rate can help keep attorneys billable and reduce unbillable tasks by delegating to admin staff.



# Goal 4: Taking control of earnings and getting paid

To thrive, law firms need to translate chargeable hours into revenue. To do this, keeping a close track of all billable work provided by the firm and getting paid in a reasonable timeframe is key. However, realization – the amount of work compared to how earnings are realized – is influenced by a variety of factors.

Here are two types of realization rates firm can track to ensure success.

## Billing realization rate (%)

The total amount in fees billed divided by total hours worked multiplied by the attorney's standard rate. The billing realization rate measures the difference between what you record as time and what percentage of that time is paid by the client.

For example, an attorney's standard billing rate is €250 an hour, but he takes on a case for a fixed fee of €1000. If he works for 5 hours, his effective rate is €200/hour, and billing realization rate is 80%. Had he delegated this job to a junior to do in 10 hours with a standard billing rate of €100, the realization rate would have been 100%.

Tracking billing realization can help identify issues in timekeeping, disadvantageous fixed rates and discounting, excessive write-downs (fee reductions taken before sending the bill) or ineffective delegation. To identify trends, billing realization can be measured by attorney or by matter.

## Collection realization rate (%)

The total billed fees divided by collected fees in a given timeframe (i.e. monthly). To optimize collection realization, firms needs to look at shortening the accounts receivable lifecycle and reducing write-offs (fee reductions after sending the bill).

Tracking collection realization enables firms to be in control over cash flow and save money. For example, if a firm can decrease write-offs by five percent on €200.000 of collections annually, this translates into an extra €10.000 in receipts for the firm.

Collection realization can also be tracked by responsible attorney, matter, client, billing type (fixed or hourly) or practice area.

# Tracking and monitoring metrics with Kleos

Do you struggle with finding the time to track metrics and monitor the performance of your firm?

Something as simple as using legal practice management software can help you easily report on the metrics that matter most to your firm. With Kleos you can:

- measure profitability and overall financial performance with one-click reporting
- evaluate everyone's contribution to the firm in terms of billable hours worked, revenues generated and the realization rate
- monitor activities and tasks to ensure your organization is leveraging staff in the best way
- stay on top of billing with more accurate invoicing based on time sheets or fixed fees

If you are considering legal practice management software for the first time, or if you think it could be time to move to the cloud, then it's time to consider Kleos.

## It's **K**leos Time

Kleos is the cloud-based practice management software by Wolters Kluwer, the European leader legal software for over 30 years. More than 10.000 legal professionals use Kleos every day. Now it's your turn.

If you think it's time to automate routine practice processes and prioritize strategic and, above all, billable activities, then it's time for Kleos.

Get to the heart of practice management and go back to being a lawyer - Kleos will take care of the rest.

## See **Kleos in action**

http://www.kleos.wolterskluwer.com/en

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