

Measure, Measure, Measure:

# Every Law Firm's Guide to Key Performance Indicators (KPIs)

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## Introduction

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Nowadays, you hear every entrepreneur and investor saying “KPI”—so much so that you might think “key performance indicators” (KPIs) is a buzzword, and the act of measuring them is a trend. Not so fast, though, KPIs are business-critical and here to stay. If you wish to be a successful law firm for the long term, you’ve got to identify, measure, benchmark, and act upon these key metrics.

How do you know which attorney or which client is contributing to or reducing your profits? How do you know which marketing expenses or client development activities lead to the most valuable clients? Are you leveraging your professional staff appropriately? Are your clients happy? Knowledge is power, and KPIs provide the data and knowledge to answer these critical questions.

In this guide, we’ll introduce you to KPIs from a law firm perspective and explain how to pinpoint, measure, and leverage metrics beyond the traditional billable hour.



**Key Performance Indicators** are business metrics that evaluate an organization’s performance and success.



## Determine What to Measure

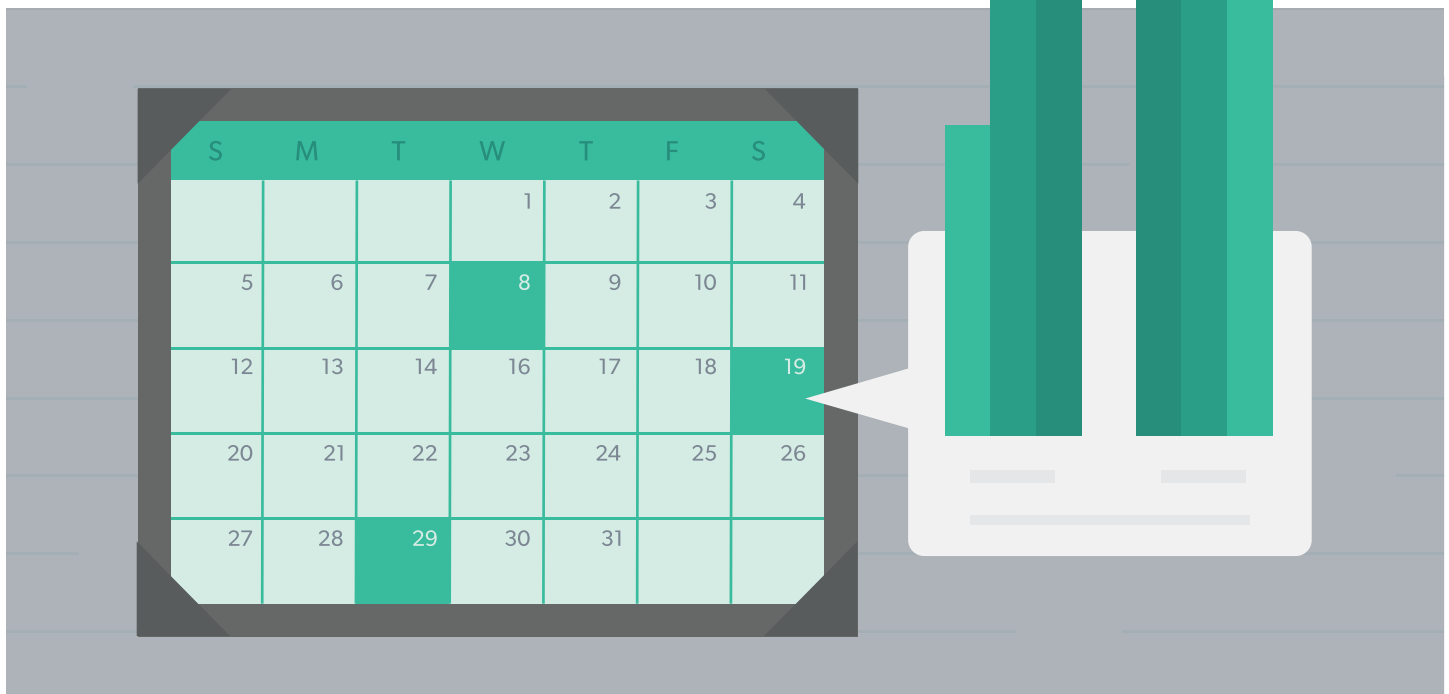
The possibilities of what to measure are endless. First, you need to decide what information provides valuable insight into your business's performance and what data is needed in order to give you that information.

### Some key metrics may include:

- ⚙️ Number of new clients per month
- ⚙️ Revenue collected per month
- ⚙️ Revenue billed per month
- ⚙️ Monthly expenses
- ⚙️ Client satisfaction scores
- ⚙️ Employee satisfaction scores

## Check Your Systems First

You can't measure what you don't track. The first step in establishing your KPIs is looking at the data you already have available in your firm's practice management system. Make an inventory of the data being collected and determine if there are any holes between what you have and what you need. Let's hope your firm is using systems that are integrated with each other, so that pulling figures is streamlined. You will most likely have to create a spreadsheet for all your metrics; check out Appendix A for an example to help you get started.



## Challenge Legal's Traditional Metrics

Ten years ago, I spent time as the vice president of finance at one of Canada's largest law firms. We spent most of our time reporting on billable hours, utilization, and collection. Unfortunately, I don't recall asking clients for feedback or calculating the cost of acquiring a new client. This has been the status quo in the legal world: measuring from the supply viewpoint and focusing purely on all things billable. There's been little to no emphasis on measuring the efficiency of legal service delivery or the quality of the work.

Long-term success is not just profit per partner. Clients have more choices, and many are following the do-it-yourself trend for legal services. Measuring client satisfaction is a new concept for the legal industry, but knowing what you can improve upon based on solid feedback is mission-critical to business success today.

Ultimately, cash is king. Businesses and law firms alike fail because they pay out more than they bring in. Measuring more than the metrics associated with the traditional billable hour will help your firm better understand its current and potential monetary situation.



## Why Measure

### The Modern Law Story: Client Development KPI Measurement



Billie Tarascio has a family law practice in Phoenix, Arizona, plus an automated forms solution called Access Legal. Her firm, Modern Law, implemented KPIs in 2015. Here's her story:

Sometimes, running a law firm felt like gambling. We did our best at marketing the firm, networking, meeting our clients' needs, billing, figuring out pricing, and hoping it all worked out.

#### We struggled with questions like:

- When should we hire help?
- On which areas of our practice should we focus?
- Are our investments creating a return?

Some months we made money; other months we lost money. Our profit margin wasn't where I wanted it to be. Sometimes our phone would ring off the hook and other times it sat dead. We would speculate over the reasons for this, but that's all we had: speculation.

In 2014, we decided to get serious about monitoring and guiding the business to increase profits and become a healthier and more predictable business. We also wanted to create accountability within the firm and measure the performance of employees.

We learned many things by measuring and our firm started to perform better almost immediately. One of the most striking lessons came when I was looking at the number of consultations vs. new clients in a given month. One very busy month revealed that we had given away 103 free phone consultations, but only seven new clients hired us. Obviously, that was the last month we gave away free phone consultations. Our conversion rate is now up to 70% month-over-month.

## Question Your Stats

In the case study, Billie Tarascio measured conversion and the cost of customer acquisition, both of which are not traditional measurements in law. Before we examine these new metrics, let's build upon some of the traditional metrics, keeping the same \$250 per hour billing rate.

If an attorney has 60 hours per week to practice law but is spending about 10 of those hours prospecting and in non-billable meetings, he or she immediately starts measuring using 50 available hours. However, the attorney should instead calculate \$15K of potential billings (60 hours at \$250 per hour) rather than 50 hours or \$12.5K. Keep that in mind.

$\begin{array}{r} 60 \text{ hours} \\ \times \\ \$250 \\ \hline \$15\text{k potential billings} \end{array}$	$\begin{array}{r} 50 \text{ hours} \\ \times \\ \$250 \\ \hline \$12.5\text{k potential billings} \end{array}$
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If this attorney bills \$10K for the week's work, we would say that she was 80% billable (calculated as \$10K billed divided by \$12.5K potential). Though, it should be 67% (\$10K billed divided by \$15K potential) because those were her available hours that could lead to revenue.

$\$10\text{k} / \$12.5\text{k} = 80\% \text{ of billable hours}$
$\$10\text{k} / \$15\text{k} = 67\% \text{ of available, billable hours}$

If the firm only collects \$7K, then they think they have a 70% collection rate, but that's another inflated statistic. In reality, they've collected \$7K of \$12.5K potential billings, so it's a 56% collection rate. Also, if they look at what they collected versus potential billable time, that calculation would become \$7K divided by \$15K, which amounts to less than 50%.

$\frac{\$7\text{k collected}}{\$10\text{k billed}} = 70\% \text{ collection rate}$
$\frac{\$7\text{k collected}}{\$12.5\text{k potential billable hours}} = 56\% \text{ collection rate}$
$\frac{\$7\text{k collected}}{\$15\text{k available, billable hours}} < 50\% \text{ collection rate}$

Remember that none of these metrics mean anything out of context. The type of practice, firm, and lawyer lifestyle objectives all factor into setting the targets to evaluate these numbers.

The takeaway here is that the traditional metrics are focused on the supply of billable hours and not demand for services. Therefore, attorneys are not focused on the value of services, client needs, or ultimately, client satisfaction. Regardless of fee structure, we need to concentrate on the return on investment (ROI), contribution margin, and cost of client acquisition as well as client satisfaction and firm culture. All with targets!

## Why Measure

### The Modern Law Story Continues: Client Satisfaction and the Net Promoter Score (NPS)

We knew client satisfaction was important, but we struggled with how to measure it in a simple and effective way. In addition to measuring the number of client referrals each month, we wanted a satisfaction score, something objective that wasn't "moderately satisfied" or "somewhat satisfied." We turned to software as a service (SaaS) metrics for help. We started to measure the Net Promoter Score (NPS), an objective score that would tell us if our clients were satisfied to the point of recommending the firm to others.

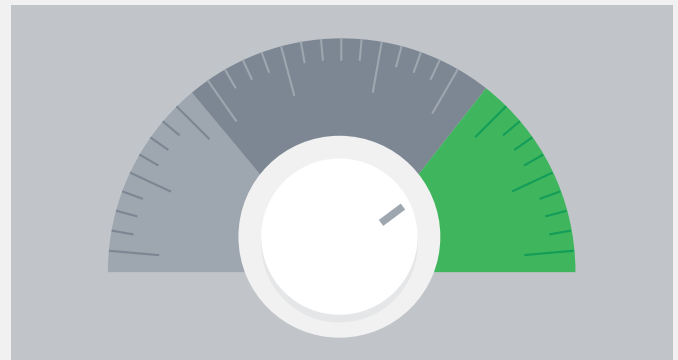
We measured NPS using Infusionsoft (a small business customer relationship management (CRM) software), Clio's practice management system, and Excel. We asked clients one question: On a scale from 1-10, with 1 being not at all likely and 10 being very likely, how likely are you to recommend the firm to family and friends?

Those who answer 1-6 are deemed detractors, those who answer with a 7 or 8 are considered neutral, and those who answer with a 9 or 10 are considered promoters. Taking the percentage of promoters and subtracting the percentage of detractors determines our NPS score.

#### Here is our firm's calculation:

We received 67 total responses—51 promoters (9-10), 13 neutrals (7-8), and 3 detractors (1-6). Our total score was 51 promoters divided by 67 responses, which equals 76%, minus 3 detractors divided by 67 responses, which equals 4%. Thus, our NPS score came to 72 out of a possible 100.

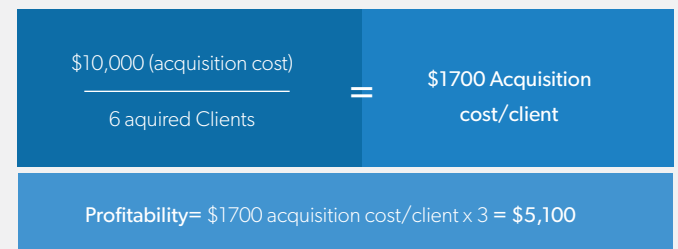
Promoters (Score of 9-10)	51
Neutral (Score of 7-8)	13
Detractors (Score of 1-6)	3
<b>Total</b>	<b>67</b>



By posing this one question, you can determine your client satisfaction level, and you can dig deeper with additional questions on each response to glean deeper insights.

### The Modern Law Story Continues: Cost of Client Acquisition (CAC)

Looking at a month in 2015, we had used \$5K of billable time for six new clients. Our seventh client was from a referral, so we excluded her from the calculation. We next added in \$5K for the monthly marketing costs, such as memberships, lunches, Google AdWords, and events. The total cost of acquiring the six clients was \$10K, which shakes out to \$1.7K per client. To maintain profitability without changing our conversion, or the cost of client acquisition, the firm would need to earn at least \$5,100 per client (three times the cost of acquisition).

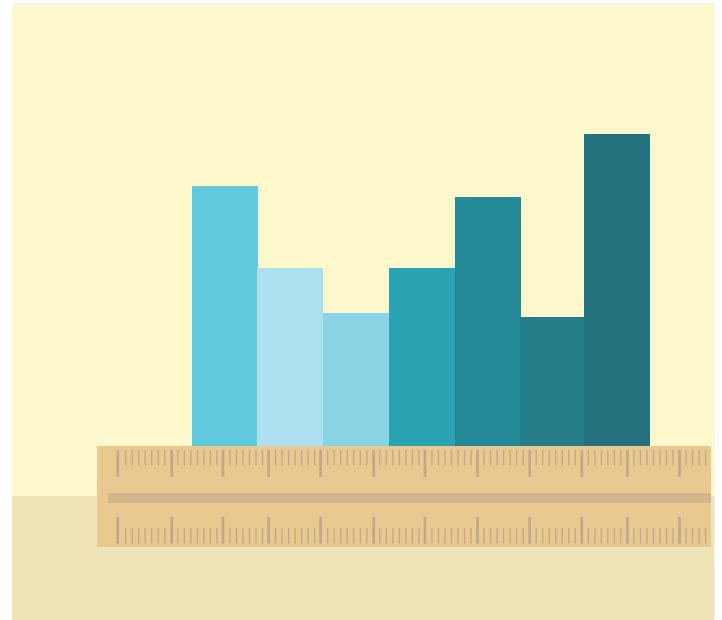


## Understand the Business of Legal

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As part of our Evolve Law movement, we are challenging you to think outside the box. We recommend you measure the following seven areas of KPIs:

- Client satisfaction
- Client development
- Firm culture
- Cost of client acquisition (CAC)
- Throughput and productivity (including some traditional KPIs)
- Profitability and margins
- Individual performance



## Know Your Targets

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To circle back to the Modern Law case study, you may be wondering whether the stats Billie shared are good or bad. The answer to that question is the same standard answer you get in law school: it depends. In this case, good or bad depends on your targets.

Each and every firm has to set their own targets because they are unique to your practice. For example, with the cost of customer acquisition, if Modern Law sold limited services matters only at \$1500 each, the firm would be out of business quickly because their CAC (\$1.7k ) exceeded revenue. Your target for the cost of client acquisition depends on the type of law and the return on investment per client. For example, are you doing criminal defense work where you hope that the client is only with you once? Or are you doing intellectual property work that can be repeated over the years? What is the lifetime value of every client?

### Why Measure

#### The Modern Law Story Concludes: Taking Action




Once I had information, it was easy to decide to make some changes and to measure the effectiveness of my changes. Our conversion rate hovered between 10%-20% using our free phone consultation model. By changing to a paid, in-person consultation, conversion soared to more than 70%. We increased costs by hiring a dedicated front line intake specialist who triaged potential clients over the phone based on a script. The potential clients who couldn't afford the consultation fee were referred to our sister company, Access Legal (free legal forms and resources). This one change turned our consultations from a drain to a profit center. It improved the quality of our clients and improved employee satisfaction. All in all, by making decisions based on data, the firm tripled its profit during the first year of measurement.

## Measure, Analyze, Act, Repeat

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To take corrective action, you must understand what each KPI means and why that's important. Similar to setting targets, we need to understand what the KPI vs. the target is telling us. Also, unless you are way off target, a couple of months of data is required to spot trends. Run your KPI reports monthly and analyze the reports in a timely manner, so you can make the appropriate changes if needed.

The critical step with analysis is to calculate your KPIs so that you understand the complete impact on the profitability of your firm plus the contribution from each attorney. We recommend following the old management model of "Plan, Do, Check, Act." Plan to gather the data for your KPIs. Once you've completed and analyzed these KPIs, take corrective action and then repeat this monthly.

	<p><b>Do</b></p> <ul style="list-style-type: none"> <li>• Pick KPIs relevant to your goals</li> <li>• Set targets based on your goals</li> </ul>
	<p><b>Check</b></p> <ul style="list-style-type: none"> <li>• Track your KPI data</li> <li>• Measures the results</li> </ul>
	<p><b>Act</b></p> <ul style="list-style-type: none"> <li>• Make decision from your measured KPIs</li> <li>• Repeat the cycle after you act</li> </ul>

Knowledge is the power to make a change. KPIs are the best system to make data-driven decisions and informed changes to improve your practice. Ultimately, you are creating value for your clients, and traditional input metrics won't help you do that. You must evolve what and how you measure in order to succeed in our changing legal landscape.

### About the authors

Mary Juetten is the founder and CEO of [Traklight](#) and co-founder of [Evolve Law](#). She specializes in helping companies in transition, growth, or startup create sustainable, operational, and financial growth. She created the only self-guided software platform that creates a custom business risk assessment and intellectual property (IP) strategy and automates the client intake process for attorneys. Mary is an international writer, who contributes to Forbes and the ABA Legal Technology Today; speaker; and mentor. She's currently on the Emerging Enterprise Committee of the Licensing Executives Society and the Co-chair of the Arizona Technology Council's Law & Tech committee. Mary and her husband live in Washington State and Phoenix, AZ and try to spend as much time as possible not working now that they're empty nesters.

Billie Tarascio is the founding attorney of [Modern Law](#) and it's sister company [Access Legal](#). Modern Law is a family law firm with locations in Mesa and Scottsdale Arizona that utilizes the tools and guidelines outlined in the white paper. Access Legal is a legal document automation tool for law firms and pro se litigants. Billie is a frequent speaker and writer on issues related to practice management, technology in law firms, cloud computing for firms, alternative billing for growth and more. When she isn't innovating for law firms she is hanging out with her husband and children.

Interested in learning more? Email us at [info@evolvelawnow.com](mailto:info@evolvelawnow.com)



## Appendix A

Key Performance Indicators (KPIs)	How Calculated	Target	Tells Us....	Frequency
<b>CLIENT SATISFACTION</b>				
Net Promoter Score (%)	% of Clients who say they would recommend us	≥ X%	Our Clients are happy with our services	Quarterly
<b>CLIENT DEVELOPMENT</b>				
Sales Conversion Rate (%)	# of New Full-Scope Clients / # of Potential Client Intakes	≥ X%	We are effectively converting leads to sales	Monthly
<b>FIRM CULTURE</b>				
Average Work Climate Satisfaction (#)	Total Work Climate Survey Score (Scale 1-5) / # Surveys	≥ X	Our employees feel safe, positive and comfortable	Quarterly
<b>COST OF CLIENT ACQUISITION</b>				
Cost of client acquisition- CAC (\$)	\$ sales and marketing + opportunity cost of staff or lawyer/#new clients	≤ \$X	We understand our cost of acquiring new clients	Monthly
Life-time or Annual customer value - CV or LTV (\$)	Total Revenue per year by client (if not one and done, then cumulative)	≥ \$X	We understand the long term revenue from clients	Annually
LTV to CAC ratio (ratio)	CV or LTV / CAC	≥ 1X	clients	Annually
<b>THROUGHPUT &amp; PRODUCTIVITY</b>				
Revenue per Matter (\$)	Gross Revenue / # New Matters in CLIO (same period)	≥ \$X	We are seeing the most profitable types of cases	Monthly
Contribution Margin per Matter (\$)	Gross Revenue - CV - Variable Cost	≥ \$X	We are seeing the most profitable types of cases	Monthly
Attorney Leverage (%)	Total \$ Billings of All Attorneys / Total (\$) Billables	≥ X%	We have the right staffing levels	Quarterly
Paralegal Leverage (%)	Total \$ Billings of All Paralegals / Total (\$) Billables	≥ X%	We have the right staffing levels	Quarterly
<b>PROFITABILITY &amp; MARGINS</b>				
Return on Owner Equity (Investment) (%)	Owner Compensation / Gross Revenue	≥ X%	Business is meeting industry profitability standards	Annually
Profitability Margin (%)	Total Net Operating Income / Total Income	≥ X%	We meet profitability expectations	Monthly
<b>INDIVIDUAL PERFORMANCE</b>				
Billable Hours Collected by Attorney (%)	Total Collected \$ by Attorney / Total \$ Billings by Attorney	≥ X%	Are Attorneys managing Clients well enough?	Monthly

