

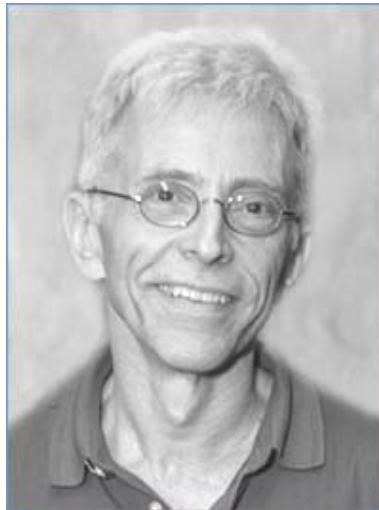
Law Firm Key Performance Indicators

A Primer

Law firms of all sizes measure various behaviours and indicators of firm health and performance. These indicators are important sources of information for the management of the firm and its staff. The challenge is to identify the subset of these metrics that are critical to the success and life of the law firm and then focus on these metrics, which are referred to as key performance indicators, or KPIs.



Stephen Mabey, CA
Principal & Managing Director



Michael Mabey, CMI
Consumer Metrics, Inc.

No one KPI tells the full story; rather, KPIs must be viewed collectively to ensure the firm's decisions are made on an informed basis.

When choosing KPIs, your firm should consider that the KPIs must:

- reflect the firm's strategy and goals;
- be seen as key to the firm's success; and
- be quantifiable.

All KPIs should be firm specific but also taken in context of an industry-level view.

No firm uses all KPIs.

Every law firm should identify the KPIs that are important to the firm and its definition of success and put in place a system for tracking and using these metrics to guide firm strategy.

No one KPI tells the full story; rather, KPIs must be viewed collectively to ensure the firm's decisions are made on an informed basis. For example, if your firm has a strategic focus on specific client relationships and supports that focus with client teams, then perhaps the following KPIs might be important in measuring the breadth of the relationship:

- The number of matters per client as an indicator of growth in the client relationship;
- The number of practice areas that serve these clients as an indicator of cross-selling success; and
- The number of lawyers with time on matters connected to this client, as it measures the

breadth and depth of the relationships between your firm and the client.

Function-Specific KPIs

KPIs typically have focused on the financial and operational aspects of law firms.

Financial KPIs:

- Unbilled days
- Uncollected days
- Net income as a percentage of revenue
- Average net overhead
- Revenue per square foot
- Revenue per employee
- Revenue per matter
- Percentage at point of billing

Operational KPIs:

- Billable hours per full-time equivalent timekeeper (FTE)
- Percentage of partner hours
- Billings per FTE
- Average bill rate
- Average work rate
- Ratio of billed-to-work rate
- Number of matters opened
- Staffing ratio
- Number of billable hours per legal assistant FTE
- Cost recovery revenue per matter

Marketing and Business Development

Firms are still in the early stages of exploring marketing and business development KPIs to understand what will work best for them. A firm's strategic focus will impact its selection of KPIs: Transaction-focused firms will have different KPIs than relationship-focused firms. Other factors, such as whether your firm is focused on new business or on retention of existing clients, will also play a role in your firm's selection of marketing KPIs.

The following list of possible KPIs for marketing and business development in law firms is not intended to be exhaustive; rather, it presents examples of KPIs you might consider adopting and adapting for use in evaluating your firm's efforts:

- **Client Growth Rate:** The ratio of the number of clients the firm handled its first matter for in the past 12 months to the total number of active clients (active can be defined as having handled a matter for in each of the past two of three or three of five years).
- **Dormant Client Percentage:** The ratio of the number of clients that firm has not handled a matter for in two of the past three or three of the past five years to the number of total clients.
- **Average Fee per Client:** The fee revenue for the year divided by the number of clients billed during the year.

- **Average Fee per New Client:** The related fee revenue for the year divided by the new clients (of clients that the firm handled its first matter for in the past 12 months).
- **Marketing Budget Ratio:** The ratio of the total marketing spend (including salaries) to the total fees billed during the year.
- **Business Development Ratio:** The ratio of the business development spend for the year to the total fees billed during the year.
- **Marketing Cost per Client:** The ratio of the total marketing spend (including salaries) to the number of clients billed during the year.
- **Business Development Cost per Client:** The ratio of the business development spend for the year to the number of clients billed during the year.
- **Average Fee per Matter:** The fee revenue for the year divided by the number of matters billed during the year. **Average Fee per New Matter:** The related fee revenue for the year divided by the number of matters billed for new clients (handled its first matter for in the past 12 months).
- **Client Retention:** The ratio of clients billed in the last 12 months to the total clients that had been billed in the 12 months prior to the last year.
- **Growth in Top Clients:** The ratio of fees billed to top 100 clients (number can be adjusted to size of firm) in the past 12 months to the fees billed to the top 100 clients in the prior 12 months.
- **Practice Areas per Client:** The number of individual practice groups billed to clients on average.
- **Number of Lawyers per Client:** The ratio of individual lawyers who generate working fee credits billed to clients on average.
- **Number of Matters per Client:** The ratio of number of matters billed to the number of clients billed.

The importance a firm places on specific KPIs can and will change over time. How the firm uses them should not change.

Challenges to Using KPIs

Utilizing KPIs to assist in making business-like decisions does have its challenges, including the following points:

- Finding a relevant external benchmark against which to compare your firm's KPIs so it has real meaning and appropriate strategies can be developed.
- Most law firm accounting software packages don't lend themselves to generating the information in a timely fashion (if at all).
- Misinterpreting KPI results and overreaction to short-term variations in results.

Keep in mind that context is critical to the effective use of KPIs. An excellent way to do this is

through benchmarking, comparing your firm's KPI results against the same KPI for other organizations. The trouble is that access to benchmarking data in the legal profession is limited. Several national sources of benchmarking include the following indexes:

- Lexis®Firm Insight BI Companion;
- Annual Survey of Law Firms, by Inclusive Legal Intelligence;
- Hildebrandt Peer Monitor Economic Index (PMI); and
- LawFirmKPI Inc. annual survey.

There are likely formal and informal local sources for benchmarking as well that firms can use; however, users need to make sure that it is a comparable group (firm size, geography, type of firm, etc.); that the indicators being measured are consistently calculated; and that the benchmarking is conducted by a third party so the results are not skewed to the goals of the initiator of the benchmarking exercise.

Likewise, if you cannot generate accurate comparable information on a timely basis, then the information loses both value and credibility, even if you can find an external standard to benchmark against. But, perhaps most importantly, KPIs have to be interpreted accurately and acted on appropriately—good judgment is still the final arbiter.

The following scenario perhaps best demonstrates the need to exercise judgment: Your firm experiences a strong increase, year over year, in the average effective hourly rate (one of their KPIs), which would be seen as a very positive indicator of how a firm is weathering the current economic storm.

However, when you dig deeper, you recognize that the increase exceeds the average hourly rate increase initiated by the firm. What this KPI is really indicative of is that more partner time is being billed out at higher rates and less associate time is being billed out at lower rates, which results in an immediate increase in the effective hourly rate. This may be indicative of the partners, in challenging times, having "rolled the ladder up" when it comes to allocating work to associates. In this scenario, the KPI is still acting as an important indicator of performance; however, it is doing so by being too good and therefore acting as a red flag. Two other KPIs, Billable Hours per Partner FTE and Associate FTE, would help provide the proper context for the initial KPI.

As valuable as they are, KPIs are simply metrics—they are no substitute for the use of common sense and good judgment when it comes to the management of your law firm.

For more information on KPI's visit the [LawFirmKPI website](#).

[Comments or Questions?](#)

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