Add It Up:
The Bottom Line Matters

Legal Marketing Association

17th Annual Conference

Friday, March 7, 2003

10:45 am - 12:15 pm

3:00 pm - 4:30 pm

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The Bottom Line Matters

Moderator: **Jeffrey Steinberg**
Founder, President & CEO
Redwood Capital

Panelists: **Linda Hazelton**
Director of Client Development
Thompson & Knight LLP

William Bachman
Executive Director
Bingham McCutchen LLP

Stephen Mabey
Chief Operating Officer
Stewart McKelvey Stirling Scales

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"If you can't measure it,

you can't manage it."

- Rudy Giuliani

Generally true, but has he ever met law firm marketing?

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“I know that half of our marketing efforts are effective. I just don’t know which half!”

- John Wanamaker

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There is a recurring theme by some marketing writers that due to the volume of ad campaigns on all mediums - telemarketing, e-mail spam, fax spam, etc. “no one pays attention anymore”.

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To firms that are continually under pressure to reduce costs, this may become a “natural justification” for reduction in marketing budgets unless there is some mutually agreeable basis for measuring effectiveness of the firm’s marketing effort.

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Adding to the challenge of developing an acceptable measurement are what Norman Rubenstein, of the Zeughauser Group, identified as the four inherent challenges in the “imperfect science of law firm marketing”.

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I. **Rewarding of gorillas** - it is a fact of life that the “800 lb. Gorillas” in your organizations will always be able to command the expenditure of marketing funds.

II. **Strategic plan vs. opportunity seizing** - the marketing department will always be subject to a barrage of “opportunities”.

III. **Institutionalized mistakes** - we have always offered this seminar, had a listing in all 47 directories, sponsored this event, given to this charity, etc.

IV. **Gut decision making** - I think we need to be there (particularly if “ABC” firm is in it).

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Return On Investment ("ROI") in law firms is not a new one.

Thomas Clay & Charles Maddock, of Altman Weil, co-authored an article in 1994 which asked:

"What economic return should we expect for all the dollars we are spending in marketing?"

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They made the following observations:

I. That traditional financial measurement is difficult in a professional services firm.

II. That a firm needs 5 - 10 years of trial data to draw any strong conclusions about return on investment in marketing and even these would be asterisked.

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III. However, none of this excuses firms from ensuring their marketing dollars are well spent on activities that increase the firm’s net profit (not necessarily volume driven).

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So what is this ROI?

ROI is a financial calculation that measures how much return[1] results from a expenditure of monies on an activity or activities. It is normally expressed as a percentage (return / investment).

1. Can take the form of profit or cost savings

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Interestingly enough, there is increasing discussion amongst financial “types” as to the merit of ROI.

The analogy given is “its like telling time by the shadows of a candle - sometimes it seems right but often its materially misleading.”

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The recent series of major financial discrepancies in shareholders’ valuations of companies is likely to exacerbate this issue. The concern in part is that at the start of a project when the investment is high (i.e. initial costs of producing brochure) the ROI is low and when the investment is low (i.e. reprinting the brochure) the ROI is high, thus either understating or overstating the true return to the partnership and potentially resulting in the firm making the wrong investment choices.

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Marketers need always to keep in mind that sometimes it more important to do the “right thing”, even though it either doesn’t lend itself readily to any type of measurement or if it does, it may result in a low measurement.

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These so called “soft” intangibles or unquantifiable benefits, while getting short shrift in an historical financial measurement, are very relevant to the effort required to successfully market professional services.

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Again, the caution to be exercised in considering any methodology for measuring economic return is twofold:

I. That qualitative analysis remains critical for effective market positioning or simply put “don’t let process become a substitute for judgment”.

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II. Not to lose sight of the firm's longer term marketing goals due to a reactionary emphasis being put on only measurable short term initiatives.

There is a strong likelihood that a number of methodologies for measuring ROI will be developed before both the marketing and legal communities settle on a standard.

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Elizabeth Cordeau, in an article titled *"The Keys to Measuring Marketing Results"*, published in the November 2000 edition of Worldlaw Business, coined a phrase SMART when describing marketing strategies:

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Specific

Measurable

Attainable

Realistic

Timely

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Ms. Cordeau goes on to advise that a comprehensive marketing plan must, as one of its elements, define the indicators that will measure whether the firm has succeeded or failed to achieve its goals. She identifies three basic types of "monitoring indicators":

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Volume Based – show results in hard numbers (Note 1)	**Value Driven** – more representative of your marketing effectiveness as they look to quality issues	**Efficiency Driven** – time and motion studies (Note 2)
• Increase in market share; • Increase in client share; • Increase in new file openings; • Increase in marketing activities.	• Improved quality of work; • Client satisfaction; • Diversification of desired practice areas; • Branding and name recognition.	• How long does it take to complete a client audit; • How long does it take to manage a client mail out; • How long does it take to respond to an RFP request.

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Note 1 - Cannot be monitored in isolation given the length of the selling cycle in legal services. Therefore should be viewed as long term growth indicators (3, 5, 10 year increments).

Note 2 - Felt that by evaluating marketing infrastructure the firm can save a lot of non-billable time.

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Norman Rubenstein also shared, with the audience at the 2003 Marketing Partner Forum, the steps that he felt would evolve firms into being better positioned to measure economic return on a law firm's marketing budget. They included:

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I. Better or more accurate source coding of new matters when entered into the system.

II. Improved mapping of where the traffic is coming from on the firm's web site.

III. Tracking advertising impressions.

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IV. Determining readership of publications and matching to the strategic direction of the firm.

V. Tracking of the change in billings of practice groups engaged in target marketing.

VI. Ascertaining change in the share of the client's legal spend.

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VII. Tracking the change in the number of clients served by various practice groups.

VIII. Track success rate on RFP responses (and determine what contributed to failures as well as successes).

IX. Track “mind share” by bench marking name recognition before and after significant campaigns.

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The following slides provides an overview of Bingham McCutchen's approach and reasoning to measuring ROI on various marketing activities:

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Measurable Marketing Activity / Initiative	Degree of Difficulty in Measuring ROI (H/M/L)	Measurement Method	Primary Benefits of Marketing Activity / Initiative	Strategic Importance (H/M/L)	Impact on Bottom Line (Direct / Indirect)
Advertising	High	Market research / benchmarking	Increased name recognition / awareness	Varies; at Bingham: High	Indirect
Client Feedback Program (in person or web-based)	Low	Revenue Analysis pre/post survey	Uncovers opportunities for additional work; creates good will; pinpoints strengths/areas to improve	High	Direct, especially if survey conducted in person

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Client Teams / Target Companies	Low	Revenue analysis pre/post client team visit(s)	Additional business from existing clients	High	Direct
External Communicat-ions, e.g. legal alerts	Low	Client Relationship Management (CRM) System	Reminds clients / potential clients firm is exert in subject matter; affirms firm is on top of legal developments	Medium/Low	Indirect

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Measurable Marketing Activity / Initiative	Degree of Difficulty in Measuring ROI (H/M/L)	Measurement Method	Primary Benefits of Marketing Activity / Initiative	Strategic Importance (H/M/L)	Impact on Bottom Line (Direct / Indirect)
Proposals / Pitches	Medium – need to determine (a) if have decent chance of winning and (b) making money	Win / lose	New business	High	Direct

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Measurable Marketing Activity / Initiative	Degree of Difficulty in Measuring ROI (H/M/L)	Measurement Method	Primary Benefits of Marketing Activity / Initiative	Strategic Importance (H/M/L)	Impact on Bottom Line (Direct / Indirect)
Public Relations	High	Benchmarking (see 1/2003 issue of *Marketing the Law Firm*	Increase name recognition; 3rd party endorsement; affirms to clients they made right choice	Medium	Indirect
Sales Training	Low	Track individual attorney’s business origination	Attorneys gain new skill set that enables them to develop business	High	Direct (over time)

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Seminars / Conferences / Events	Low	Client Relationship Management (CRM) System	Opportunity to demonstrate expertise to targeted audience; face time with clients / prospects	High, if attendees are key decision-makers / influencers	Direct *if* there is good follow up
Website	Low	Software to track volume and nature of traffic	Serves as online brochure; draws traffic to site, possibly resulting in inquiries	Low	Indirect

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Some real life examples

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Demonstrate Your Understanding

- Track billing rates and profitability
  - Yours
  - Competitors
- Compare your marketing expenses and headcount to industry standards
- Track the percent of revenues coming from each tier of your clients
- Calculate average revenue per client and track year over year
- In other words…..speak their language

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ROI at the practice group level

- Aggregate all revenues by practice group members
- Aggregate all marketing expenditures by the group
  - Expenses at the group level
  - Expenses at the individual level
- Divide group revenues by group expenditures
- The resulting percent is the group's ROI for their total marketing dollars

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Separate The Component Parts

ROI on group dollars

ROI on the aggregated dollars spent by the group's individual lawyers

How do these results differ?

- Is the group more effective as a group or as individuals?

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More Questions Raised Than Answered

The firm's litigation lawyers spent virtually nothing on marketing

- "The rich get richer and the poor get children"
- Or, "nothing succeeds like success"

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More Questions….

A very large number divided by a very small number results in a huge ROI, but is it a measure of effectiveness?

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More Questions….

The firm's project finance lawyers showed a skewed ROI

- Required extensive international travel, so the denominator was inflated

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Some Very Simple Measurements

- Cost per reach
  - Media
  - Advertising
- Cost per attendee
- Cost per invitee
- Cost per print piece produced

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Applying ROI Analysis

Which clients are “right” for a client team approach

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Costs of Client Teams

- Research cost per team
  - $100/year (verify)
- Allocation of staff costs
  - Do you allocate staff costs to all projects and initiatives?
    - Salary divided by percent of time spent on all client teams divided by the number of client teams
  - Allocation of attorney time?
    - See above
- Lunches, breakfasts, and other costs of meetings (travel, videoconference costs, etc)
  - Estimate cost per team
- Travel to client's facility for service reviews
  - Estimate cost per team
- Additional client entertainment
  - Estimate cost per team

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Calculation

Staff cost per year

Research

Lunches, other direct expenses

Cost of travel

Cost of entertainment

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Obstacles and “Issues”

Life makes it hard to hold everything else steady as you measure the impact of one thing (marketing)

- Compare revenues year after year
  - Adjust for inflation/deflation
  - Adjust for headcount changes
  - Adjust for billing rate changes, etc.
- Is the remaining change attributable to marketing?
  - What else would you have to adjust for?