

Vital Numbers for Your Law Firm's Health

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If you want to take superhuman care of your clients, you will want to run an efficient business. You need to learn to love numbers. To run an efficient business, knowing your vitals is crucial.

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 are 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. It's important to focus 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." If you want a steady stream of new business, then 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, learn more about it and get past that fear. Spend 10 minutes watching a basic tutorial 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 by 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 is critical. Tracking your time 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. This rate helps you understand the amount of administrative work you are doing versus legal work.

Collection rate. Collecting money for their invoices is a big problem for law firms, but many firms 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. ■

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