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WHITE PAPER

THE SECRET LAW FIRM METRIC CLIENTS WILL PAY THEIR ATTORNEYS TO IMPROVE

Tyler Chapman & Amy Kosey



HINT: It's not a financial metric, but it can have a big impact on improving law firm profitability and growth.

What's more, it's really not that big a secret if you've been listening closely to the clues your clients have been dropping: Like trying to negotiate lower rates, taking a long time to pay your bills, or simply "forgetting" to pay bills altogether.

Worse yet? The "hints" dropped by clients who leave no hint whatsoever, simply walking out the door, never to return, never to offer even the first clue about why they don't answer your calls or emails.



The secret metric they all want you to measure and improve on?

The value your firm provides to them as clients.



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Discovering improved profitability and growth through client-value metrics

Traditional law firm metrics tend to measure success through law firm eyes, with the ultimate goal of improving profitability.

According to a March, 2014 survey by the Managing Partner Forum (MPF), “fully 96% of managing partners said their firms had ‘excellent, highly informative’ financial metrics or ‘solid, reliable financial measures.’”

No surprise there. Making money is essential to the long-term success of any business.

Contrast that emphasis on tracking financial metrics, though, with those same

firms’ efforts measuring “client satisfaction/relationship” metrics. As it turns out, only nine percent of those surveyed firms gave themselves the same “excellent” or “solid” rating¹ in measuring themselves from their clients’ perspectives.

Does it matter?

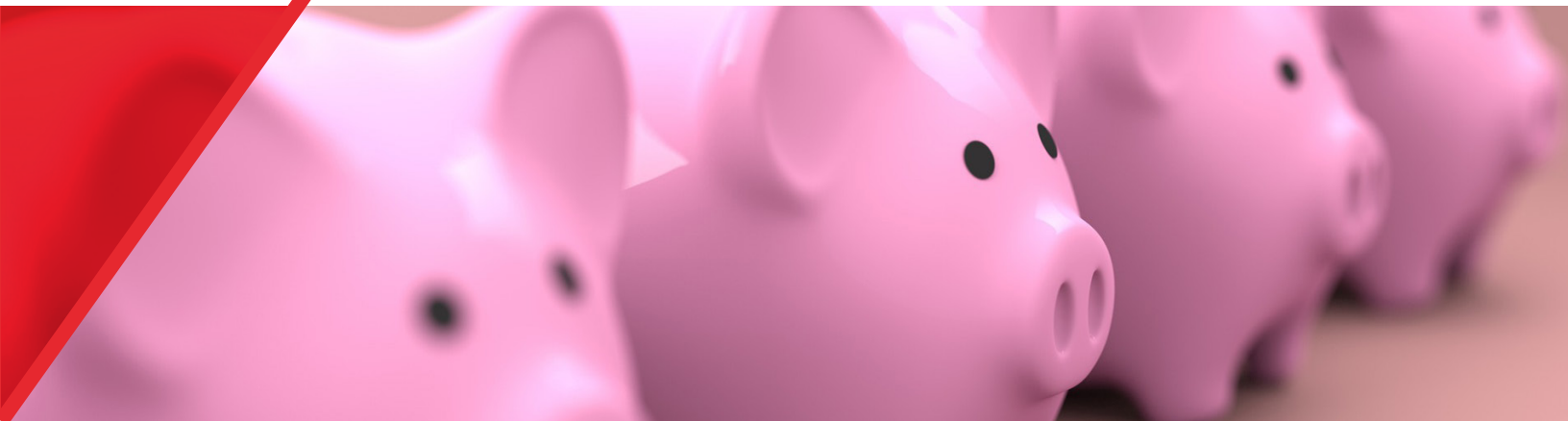
According to BTI Consulting Group, the answer is a pretty emphatic yes. Their “BTI World-Class Client Feedback 2014 Webinar” points out that the law firms rated by clients as providing “superior client service” tend to have:

35.6%
Higher Overall Growth

19.5%
Rate premium across all staff levels

33%
Higher profits²

1. “Goals, Measures, and Scorecards: Law Firms Fixated on Today’s Billable Hours and Collections,” by John Sterling and John Remsen, Jr., Managing Partner Forum ®, May 2014
2. “BTI World Class Client Feedback 2014 Webinar,” April 17, 2014, BTI Consulting Group



Higher growth, even in the face of higher rates and profitability? Over and over, trends suggest a growing divide between highly specialized firms with high billing rates on the upper end of the success scale and, on the opposite end, transactional firms with lower billing rates and growth that are too often dependent on one client for survival.

That's not exactly the picture of gloom and doom some have been painting of the legal world for several years now, but it calls for serious self-examination from those firms trying to hang on and survive off the good graces of one or two clients who may be sticking around simply out of habit.

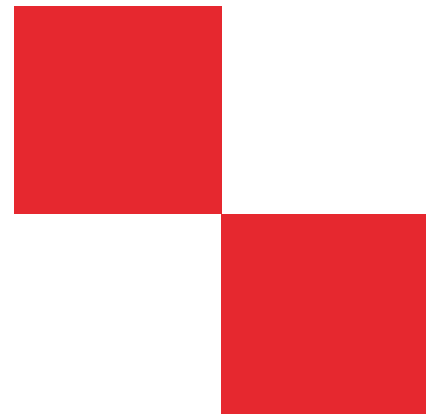
How can you tell if your firm is providing the "superior client service" it takes to make your clients loyal to you if you're not regularly evaluating yourself from their perspective? You probably can't.

If your firm is stopping at traditional profitability metrics, you're seeing the results of your efforts as attorneys, but likely missing out on what got you there, and what you need to improve on to take profitability and client growth further: Client-value metrics.

From the outside in: Viewing your firm through your clients' eyes

Before you dismiss the idea of client-value metrics as out of touch with the type of clients your firm specializes in serving, consider that many of the metrics we're advocating are about creating real measures of the professionalism that clients seek out in their law firms.

For law firms willing to adapt, it may well mean success built on what most clients wanted all along: relationships grounded in providing long-term value for them, instead of short-term gains for their firms. From the law firm perspective, that improved client value can translate into faster



invoice turnaround, fewer invoice questions and more collaborative attorney/client relationships.

How does your firm rate on client-value measures?

Do your attorneys discuss timing and budget with your clients at the very beginning of matters so they're not left wondering what will happen when, and ultimately, how much it will cost (within a range, of course)?

What about managing client expectations? If you don't take time at the beginning of the relationship to fully understand what kind of outcome each client will consider success in the end (not having to pay alimony, settling a case for less than a million dollars, not-guilty verdict vs. probation vs. prison time, etc.), how will you know when you've achieved success from their point of view? While 100 percent success may not always be achievable, it's also important for the attorney to know what result

might be considered acceptable, and what type of outcome would be viewed as failure.

Maintaining regular communication is also an important element of the client-value equation, but one that law firms far too often fall short of in their clients' minds. In fact, inadequate communication consistently ranks as the number one bar association complaint from disaffected law firm clients.

How often does your firm update clients about the status of their matters?

Do you rush to pass on good news, but keep potentially bad news quiet until the last possible moment?

Do you answer client inquiries within a defined period, or are you sometimes guilty of ignoring calls or emails because "I'm too busy working for my clients to hold their hands all the time?"



All of these questions are included as key elements of the Client-Value Metrics Self-Evaluation we'll discuss later, but before we get to that, there may still be some question as to whether such client-value measures are different for insurance defense or other types of corporate law than for the average client that walks in off the street.

According to Steven J. Best, Esq., Founding Partner of Affinity Consulting Group, there are times when client-value measures can be much the same for both types of clients, even if they may not seem so on the face of it.

“Law firms are hired to make their clients’ lives easier. Too many firms seem to forget that...”

As a long-time consultant for law firms searching for ways to operate more efficiently and profitably through improved technology, and as an attorney himself, Mr. Best has studied attorney/client relationships from both sides of the legal desk.

“For the most part, many clients assume a high level of legal competence in their encounters with attorneys,” Mr. Best said. “After that, hiring priorities may vary according to the type of client. Individuals and small business-type clients may hire based primarily on gut feeling and levels of comfort with their first encounter, while corporate clients often prioritize hiring practices by maximizing results while minimizing costs when making the hire.”

“Anything a firm can do to move up even one or two rungs on the law firm ladder can make a huge difference in the revenue that comes their way.”

– Steve Best Attorney and Law Firm Consultant





Which sounds very much in line with the arguments we often hear against the importance of expanded client value measurements for insurance defense and other corporate clients. And if decision-making ended there, law firms with primarily corporate clients then could end their client-value metrics at result/cost measures.

That may not always be the case though.

With dozens of law firms on their rosters at any one time – all competent, all with a proven ability to provide the best outcomes for the least money – other factors can sometimes come into play for corporate law departments. Factors that can look remarkably similar to those used by individuals and small businesses: Like basic communication issues, or even small niceties that can make a firm more memorable to the people doing the hiring.

“With so much work available from law departments and so many firms vying for each piece, the difference between a first-choice firm and a second-thought firm can seem practically negligible,” said Mr. Best. “Yet the difference in the amount and value of work sent to both types of firms can be enormous. Anything a firm can do to move up even one or two rungs on the law firm ladder can make a huge difference in the revenue that comes their way.”

“Will a card or personal note to the right person make a difference? In all likelihood, no,” he said. “But considering the infinitesimal time and money expenditure required for sending out that card or note, even a tiny chance can make the effort pay many times over.”

Thinking outside the traditional law firm communications model

Mr. Best suggests looking toward personalizing client communications, which can be accomplished in person AND using social media.

“Think about other professionals you deal with on a daily basis, like the bank president who sees you standing in line and takes the time to ask about your family, or a physician who spends more time listening than talking. If you appreciate that kind of communication from the professionals you deal with, it stands to reason that your legal clients are likely to feel the same way about how you interact with them.”

“I see so many attorneys who come off in a really stand-offish way. What they consider professionalism may instead translate as aloof or uncaring to their clients.”

When it's appropriate, Mr. Best also suggests maintaining a regular presence on social media vehicles such as Twitter to help keep your name and expertise top-of-mind with past, existing and potential clients.

“Always ask yourself whether you're really making your clients' lives easier/better/more enjoyable/more rewarding? These may seem like personal questions, but they come into play and they're all affected by your style of communicating.”

Which isn't to say that good client relations/communications always occur face-to-face. In fact, there may be times for some busy clients when even a phone call, much less a meeting, can feel intrusive. That's why it's important to offer a range of options for exchanging information.

And for that, attorneys need look no further than their own after-hours dealings with banks.



Improving client value through technology: Client portals

Most of us take for granted the ability to check in on our bank accounts online, on our own time. And many legal clients would appreciate and benefit from being able to do the same with their law firms, whether it's to check for the latest updates, read documents, respond to requests for information or other similar tasks, all from the comfort of their own computers.

Yet law firm adoption of secure client portals lags considerably behind that of financial institutions.

PCLaw | Time Matters™, for instance, offers enterprise-secure cloud-based file sharing powered by WatchDox® as a fully integrated no-cost addition to their Time Matters® client, case and document management software.

Beyond offering relief to busy clients who want the ability to update themselves at will, securely storing documents online can also make it easier to fulfill the legal requirements of sharing case information with opposing counsel.

Everyone has their own sign-in information and passwords and it's easy to control exactly what each visitor can see once they establish their viewing credentials, so there's no loss of security controls once visitors have signed in to the portal.

Beyond client portals, though, there's virtually no end to the ways technology can help your firm improve client communications and value.

Concerns about security play some role in that lack of adoption, as can the expense of setting up a portal and maintaining adequate data storage, but there are workarounds for both concerns.





Improving client value through technology: Practice and financial management software

Beyond docketing, calendaring, maintaining contacts and keeping attorneys updated about what's coming up, practice management software helps attorneys maintain control over every case detail by storing files electronically.

If a client calls, even out of the blue, even five years after matter resolution, you'll never again have to utter everyone's most dreaded response, "I'll have to call you back after I pull your file." Whether you are in the office or out on the courthouse steps, even files from years back are instantly searchable from whichever device is at hand at the moment.

Advanced financial management software, too, can help improve communication by

making it easier to answer client questions about particular invoice charges. Especially for clients sensitive to potential over-billing, taking even a short amount of time to call and answer questions after invoicing can go a long way toward easing concerns and strengthening bonds with the firm.

Craig Bayer, Founder and Owner of Optiable, which specializes in analyzing law firm technology needs, then customizing and optimizing solutions to improve day-to-day productivity, recommends that firms also send out regular statements of work (not necessarily bills) at least twice a month, if not weekly. It's not only a good way to keep clients updated about progress on their matters, it can also be a good marketing vehicle, in addition to potentially saving the attorney from taking a turn that can cost the firm a tremendous amount of money.

"I often see attorneys or firms get bogged down in a particular case and work for months, even years, without sending a bill or updating the client about accumulated costs," he said. "They take the attitude that they are just going to grind it out and hope the bill gets paid in the end. Unfortunately, that rarely ever ends well, either for the firm that poured time and expenses into a matter that may never get paid, or for the client caught off guard by the total amount due in the end."

“A statement of work should clearly indicate that the firm is not asking for money, just updating the client on where the case stands.” Mr. Bayer says. Regular statements can provoke one of two reactions:

1

The client may be upset with the amount of time or expenses accumulated to date, giving the attorneys a chance to deal with it on the spot, before sinking six months of their lives into the case.

2

The client may be happy that you are giving him/her regular updates.

“Many attorneys think of bills or statements as entirely financial transactions, when in fact, they should be thought of as detailed reports on matter progress.

“If the thought of sending out regular statements seems overly complicated, it’s time to take a hard look at upgrading both your processes and your software,” Mr. Bayer said. “There are always better programs out there, especially if you are still using the accounting software you bought at the big-box store when you first started out.

“Creating bills or statements should not be a multi-day process, not if you have very good legal-specific software that takes care of everything from timekeeping and billing to accounting and reporting in one fully integrated program. With a program such as PCLaw, the whole process should never take more than a few hours at most.”

It is all about the process, even for building in client value

Mr. Bayer also consults with law firms on streamlining processes to improve productivity. To him, it is important to build client-value measures into the client intake process. “Smart firms establish certain client-intake processes from day one,” Mr. Bayer said. “Whether it is conflict searches, sending out engagement letters for signature, setting matters up in practice and financial management software or any of those day-to-day tasks that absolutely have to be done, all are considered standard processes in law firm client intake.”

Mr. Bayer also recommends that attorneys set up ticklers in their practice management software to alert them to follow through on client communication as promised.

“Smarter firms go beyond those standard firm-centric processes, though, to make sure that client communications are also built into client intake from the beginning,” Mr. Bayer says.

“It is so important for law firms to know exactly what each client expects from day one,” he said. “That is not to say that client expectations are always going to be reasonable, but it is a starting point for opening the conversation. From there, it is the attorney’s job to set realistic expectations for timing, budget and final result – all within a range, of course – and help the client understand why there may be differences from what they initially thought.”

“Attorneys tend to think of ticklers only as a way of remembering specific docketing tasks to avoid malpractice,” he said. “But there is no reason not to use the same system for prompting attorneys to contact their clients at regular intervals.

“You can set ticklers up in seconds in the practice management software you already use every day. They can be incredibly valuable for helping improve communications. And when you think about it, improving client communications can play an important role in avoiding malpractice, so it all comes full circle anyway.”



Taking measure of client value from the firm side

While client input provides the most important measure of how valuable your services are, you can not always count on every client to participate. Fortunately, there are metrics your firm can use in evaluating itself. That way, you still have ways of measuring success from the client's point of view without having to rely 100 percent on client feedback.

One such measure is by maintaining statistics on your firm from the Client-Value Metrics Self-Evaluation (see appendix, page 26). The self-evaluation creates a checklist/check-back system for making sure that firms always cover certain subject areas before contracts are signed. Subjects that law firm consultant Craig Bayer knows many attorneys would prefer not to discuss, but absolutely should.

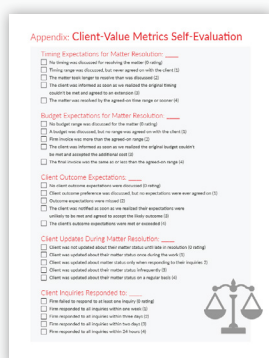
“Clients absolutely need to know whether they can afford your services and it is definitely in

your firm’s interest to know whether they have the money to pay you,” Mr. Bayer says. “After all, your firm has a lot more to lose by getting involved with a client that can not afford you than the client does.

“The same attitude can also relate to how much time a matter can take. While attorneys’ hesitation in locking themselves into a hard-and-fast estimate may be understandable, it can not be allowed to get in the way of open and honest conversation.

“Attorneys know how many variables there are that can throw budget and timing out of kilter,” said Mr. Bayer. “But for the client’s sake, and for the firm’s, you have to start somewhere, then make them aware of the types of problems that can make timing or budget take a turn for the worse, including some factors the client may have control over.”

While the self-evaluation metrics may not be a perfect measure of how clients feel about your firm, they are a good way of making sure attorneys spend the time necessary to



The Self-Evaluation creates a checklist/check-back system to help improve client communications, and a “scorecard” to rate attorneys on how well they met expectations set during client intake.

understand and discuss client expectations from day one, a giant leap forward for many firms.

In addition, they allow attorneys to maintain a record of “successes” and “failures” on particular client communication metrics and see patterns they might otherwise miss in order to make improvements in the future.

Other self-evaluation measures

Besides the client-value metrics self-evaluation, another way most law firms can better understand the value they provide clients is by tracking repeat business and referral statistics, both of which can be easily noted/measured in your firm’s practice and financial management programs.

The higher the percentage of your business that comes from repeat business and referrals, the better you can assume you are

performing on the measures that matter to your clients.

It is also important to keep regular checks on reports such as aged accounts receivable from your financial management software as another potential measure of client-value perception.

While overdue client invoices are by no means always the result of dissatisfaction with the firm, they can be used as a “canary in the coal mine” alert that a client may not be 100 percent happy, either with your legal services, or with charges out of line with their expectations.

Since good practice suggests that any type of business – law firms being no exception – should contact customers about overdue invoices anyway, a personal call from the attorney making sure everything is okay can be the perfect opening for that conversation.

How long legal clients take to pay their bills can sometimes be considered a “canary in the coal mine” alert that a client may be displeased. Firms should keep a watchful eye on aged receivables so they know to contact clients who are late paying and make sure they understand why.

Taking measure of client value from the client side

Traditional client satisfaction surveys – whether by email, phone or through the mail – are a relatively easy, low-cost way to help measure how well your firm met the minimum standards your clients expected from you.

While that's not exactly a ringing endorsement of such surveys, there are still firms that feel they have some value. Given their limitations, if your firm thinks it has something to gain from client satisfaction surveys, make sure any survey you send out is as short as possible to ensure you're not bothering busy clients.

Besides setting a very low bar for defining the value you provide as a law firm (satisfaction), be aware that what you learn from such surveys can be skewed by the fact that the most dissatisfied clients are the least likely to take time to fill them out.

So while your satisfaction scores may look good on paper, they won't always help you understand why your client list may be dwindling.

That's not to say that learning what your clients think about your firm is hopeless. It simply means that it takes effort to find out what you're doing well and where you might be falling short of expectations.

If clients want to help you, and that may depend on how helpful you were to them, your firm has the most to gain from a one-on-one client conversation, in person or on the phone, preferably with the attorney in charge or a firm principle.



While such conversations require more effort on the firm's part and may not always get the level of response you'd prefer, every successful conversation can be a gold mine for discovering what the firm is doing well and what they should be doing better. Not to mention that many clients will appreciate the extra attention from important firm members.

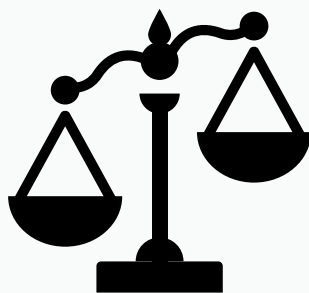
Both phone calls and one-on-one meetings are far superior to emails for gauging how the client feels about the value the firm delivered. According to law firm consultant Craig Bayer: “Emails are fine for gathering information and sending brief status updates, but they’re horrible at gauging how your client is really feeling. It’s too hard to pick up on emotions such as frustration from words on a computer screen.

“Make it a priority to call every so often just to ask how your client is doing,” he said. “And especially when you’re trying to gather client-value metrics, phone calls are much less annoying than emails because they take

real effort on the attorney’s part and clients appreciate that.”

What’s more, for those matters that did go wrong in some way, nothing beats a sincere, personal apology from someone in a position of power.

One other way of learning more about how clients feel about your firm is with net promoter scores, or NPS. NPS divides customers who respond to the question “How likely is it that you would recommend (your firm) to a friend or colleague” into one of three categories according to how they rate you:



PROMOTERS
(score 9-10)



PASSIVES
(score 7-8)



DETRACTORS
(score 0-6)

Scores are determined by subtracting the percentage of detractor scores from the percentage of promoter scores, so the higher your firm’s score, the better.

Like other survey types, you’ll only gain information from clients who care enough to take time to rate your firm, but unlike most surveys, the NPS system offers two great advantages:

1. There’s only one question, so it can be completed in an instant.
2. The NPS measurement goes past the “client satisfaction” metric that sets the bar so low for client value, to instead measure “client loyalty,” which can be a much better predictor of return and referral business in the future.



Putting client-value metrics into action to effect change

So many ways to measure client value. So many financial and business development advantages to be gained from improving it.

So what about the steps between? Yes, the steps between.

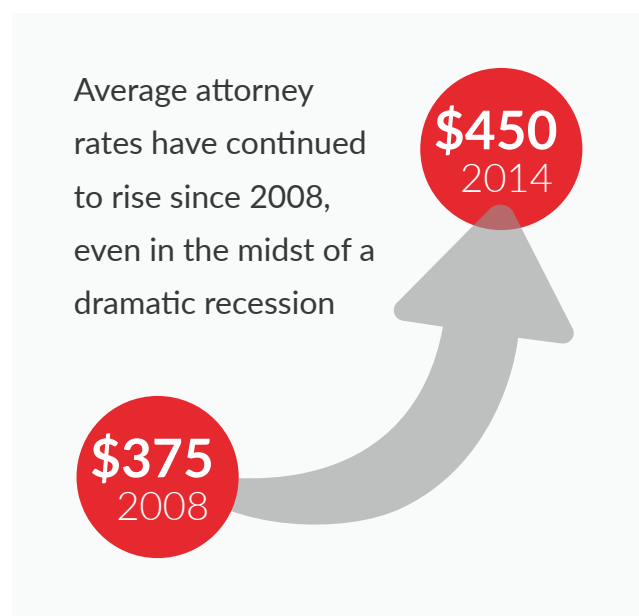
Like changing firm strategy. Changing everyday habits and behaviors to reflect that new strategy. Changing the ingrained idea that client satisfaction is enough to instill client loyalty.

And, in firms where old habits can be especially hard to change, changing the minds of those who think there's still a direct path from raising rates to improving profitability.

It takes a thousand little changes to effect real change.

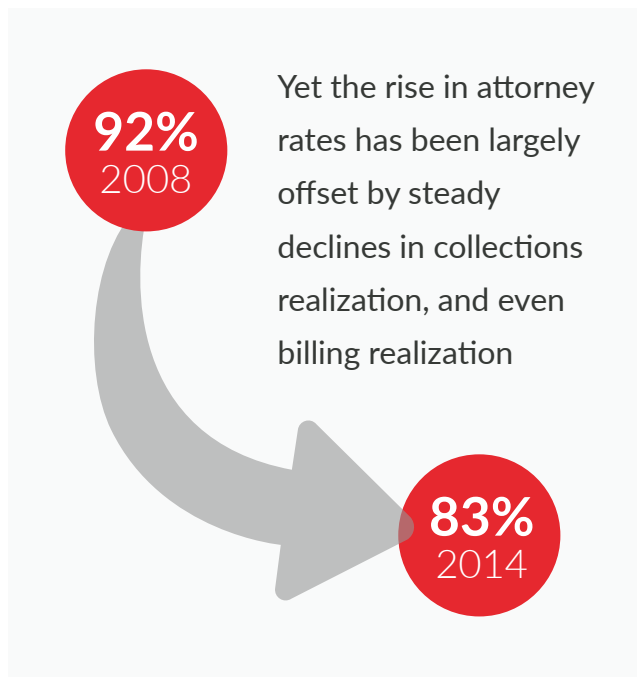
But for a good take on why it's important to make the change from the old "raise-the-rates" ways to a new strategy built on improving client value, consider the client push-back that has occurred in the legal market since the start of the Great Recession in 2008.

According to the "2015 Report on the State of the Legal Market" by The Managing Partner Forum³, standard hourly rates for surveyed attorneys have continued to rise in the past years – even in light of difficult economic conditions – from an average of just over \$375 at the beginning of 2008 to right around \$450 at the beginning of 2014.



³. "2015 Report on the State of the Legal Market" by the Managing Partner Forum, page 5\$

Which may sound like good news until you pair it with the resulting fall of collections realization (the amount firms collect in contrast to what they bill): From right around 92 percent at the beginning of that same time period to about 83 percent at the start of 2014.



The even greater irony? It appears that law firms themselves realize the futility of continuing to raise rates. Looking at billing realization from the same study (the percentage of actual work performed that makes it to the client invoice), that number has also taken a fall: From just at 93 percent at the beginning of 2008 to about 87 percent (and still falling) at the start of 2014.

Continuing to raise hourly rates even while billing at a lower (and still falling) rate, even while collecting at a lower (and falling still faster) rate on that lower billing rate?

Seems it may be time for a new math based on raising client value instead of hourly rates.

One that can actually take your firm to a higher level of profitability and new business development today.



Appendix: Client-Value Metrics Self-Evaluation

Timing Expectations for Matter Resolution: ____

- No timing was discussed for resolving the matter (0 rating)
- Timing range was discussed, but never agreed on with the client (1)
- The matter took longer to resolve than was discussed (2)
- The client was informed as soon as we realized the original timing couldn't be met and agreed to an extension (3)
- The matter was resolved by the agreed-on time range or sooner (4)

Budget Expectations for Matter Resolution: ____

- No budget range was discussed for the matter (0 rating)
- A budget was discussed, but no range was agreed on with the client (1)
- Firm invoice was more than the agreed-on range (2)
- The client was informed as soon as we realized the original budget couldn't be met and accepted the additional cost (3)
- The final invoice was the same as or less than the agreed-on range (4)

Client Outcome Expectations: ____

- No client outcome expectations were discussed (0 rating)
- Client outcome preference was discussed, but no expectations were ever agreed on (1)
- Outcome expectations were missed (2)
- The client was notified as soon as we realized their expectations were unlikely to be met and agreed to accept the likely outcome (3)
- The client's outcome expectations were met or exceeded (4)

Client Updates During Matter Resolution: ____

- Client was not updated about their matter status until late in resolution (0 rating)
- Client was updated about their matter status once during the work (1)
- Client was updated about matter status only when responding to their inquiries (2)
- Client was updated about their matter status infrequently (3)
- Client was updated about their matter status on a regular basis (4)

Client Inquiries Responded to: ____

- Firm failed to respond to at least one inquiry (0 rating)
- Firm responded to all inquiries within one week (1)
- Firm responded to all inquiries within three days (2)
- Firm responded to all inquiries within two days (3)
- Firm responded to all inquiries within 24 hours (4)





Tyler Chapman | MSF

Tyler is a Product Manager for PCLaw | Time Matters in North Carolina. He has worked in a range of businesses outside of the legal industry as a Financial Analyst and Business Valuation Analyst, and brings previous experience as an accountant and site controller to his work developing financial solutions for law firms around the country. Tyler has a BA from the University of Texas in Liberal Arts and History, and a Master's in Finance from Seattle University.



Amy Kosey

Amy has worked in the legal industry for over 30 years with firms of all sizes – from small to the AMLAW 100 – both in law firm IT management and in legal sales covering software, consulting and network integration. Amy has also owned her own consulting company and worked with a Los Angeles-based systems integration company. She graduated from the University of Pittsburgh.



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