Modern Metrics for the Entrepreneurial Lawyer

Written by Derek Bolen

en·tre·pre·neur ˌäntrəprəˈnər/ *noun*

1. a person who organizes and operates a business or businesses, taking on greater than normal financial risks in order to do so.

If you're a solo or small firm lawyer (and there's a 70% chance you are), let's face it—you're not only a lawyer, you're also an entrepreneur; responsible for the day-to-day management, marketing, and financial health of a business. You've assumed the 'greater than normal' financial risk of simply going to law school (to the tune, on average, just over $119,000 in debt) and graduating into a market where your employment is anything but guaranteed.

Yet despite this fact, when it comes to measuring the performance and success of lawyers and law firms, most law firm KPIs remain firmly entrenched in outdated notions that focus on the billable hour and the fee earner (legal standards), rather than the customer (entrepreneurial standards.) It's time for a change—or, at the very least, it's time to incorporate measures of success not exclusive to the practice of law—measures of success that drive some of today's most prolific companies.

As a result, forward-thinking law firms will have the opportunity to take risks, innovate, and build success by using their findings to differentiate themselves from their competitors.

Drink From the Funnel

Just like any other business, you need to acquire clients to secure revenue; and, like any other business, you need to understand exactly which channels are driving client acquisition to know where your firm is succeeding and where you can scale back your efforts. Picture client acquisition like a funnel: at the very top of the funnel, you'll have the number of customer inquiries. Following that, you'll want to focus on how many of those inquiries are converting to paid or retained clients, what the average annual revenue per client is, and your client retention rate.

For example, if you have 800 website visitors in a month, 200 customer inquiries via an online form on your website, and 20 of those inquiries convert to paid clients, you can benchmark your firm's website-to-lead conversion rate at 25%, and lead-to-client conversion rate at 10%. If your firm's growth or revenue targets call for more than 20 new clients per month, you can explore initiatives that increase website traffic, such as SEO or social media, look at improving your website-to-lead conversion through form

optimization or A/B testing, or you can look at improving your lead-to-client conversion rate through actions your firm takes after a form request is received. Knowing each step in your acquisition funnel, as well as determining factors and conversion rate for each, will allow you to continually optimize your efforts and elevate client acquisition to the next level.

Ditch Profit Per Partner

"PPP is not a good metric: it drives selfish, irrational, destructive behaviour," said Jordan Furlong in this post. "It rests on a basic assumption: that the ultimate and best purpose of a law firm is to generate and maximize profits for its partners."

Multiple firms that traditionally reported high profit-per-partner have crashed and burned, lending credence to the suggestion that PPP should not be the be-all-end-all metric for measuring law firm success. The other downside to PPP is that it's purely reactive—if you're noticing a downturn in PPP, you're looking back at what's already occurred, rather than forward.

Consider, instead, the more proactive contribution margin—calculated by revenue per unit sold (in most firms' cases, the 'unit' will be the billable hour) less the variable cost per unit. After calculating your contribution margin, you can then subtract fixed costs for overhead (such as office space or IT) to arrive at your profits and profit margins. Contribution margin is versatile in that it can also be applied to different units—for example, contribution margin by practice area, contribution margin by matter, or contribution margin by clients. Your best clients-the ideal clients for your firm-will be the ones with the highest contribution margin.

So how do you determine contribution margin per client? Say, for example, you've spent $100,000 on marketing and business development, and acquired 20 new clients over this time. This will place your Client Acquisition Cost-or, the amount spent, on average, to acquire a new client-at $5,000 ($100,000/20). These 20 new clients then generate collected revenue of $154,000 (or $7700 in annual revenue per client). Your client contribution margin for the 20 clients acquired is $2700—the collected revenue per client minus the cost to acquire that client. Tie client contribution margin to your acquisition efforts to see which clients are bringing your firm the greatest success—clients over your firm's client contribution margin average are generally more desirable, while clients below the average will generally not be profitable. Having this visibility at the client, matter, and practice area level will give you a much better idea of what's contributing the most to your firm's bottom line.

Track ROI Roiligiously

Return on Investment should be meticulously tracked for your customer acquisition channels. Whether you're investing in a new website, print advertising, a Super Bowl ad, or business development initiatives, you should be able to quantify what you've spent and what financial returns your efforts have yielded using law firm insights to understand what's truly working. No need to reinvent the wheel on this one; just find what you're seeing the highest return on and double down on it. After you've identified what's bringing in your **ideal** clients based on client contribution margin, focus specifically on the channels bringing you those clients. Once you've built a robust ideal customer profile, you can even narrow your firm's focus to create a niche practice serving only those clients, and watch your profits explode.

A Calculator for Lawyers?

On average, Clio customers save eight hours a week. Before you ponder what could be achieved in that extra time, we've done the number crunching. Our **Return On Investment Calculator** measures the revenue your firm can earn when those hours are put to better use.

Calculate your untapped revenue.

About Clio

Clio is the global leader in legal AI, powering legal work across the profession, from law firms of every size to corporate legal teams, government agencies, and courts. Its Intelligent Legal Work Platform unites the business and practice of law, connecting the people, information, and processes behind legal work. Clio's AI brings the context together with legal sources drawn from Clio Library, a growing collection of more than one billion legal documents. Over 400,000 legal professionals in more than 130 countries rely on Clio to run their legal world. Learn more at www.clio.com.