Effective Business Development for Higher Law Firm ROI

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LexisNexis®

Foreword

Until recently, law firms have not struggled to compete and be profitable—but economic challenges are today's reality. Even so, some firms continue to trend ahead of the curve with positive growth, new hires, retained clients and profitability.

How do they do it? A best practice for law firms is to cultivate existing business by understanding the lifetime value that clients contribute to law firm ROI.

Firms seeking to be competitive in the future take the following actions:
- Use technology solutions to identify the strategic growth patterns manifested by clients over decades of relationships
- Examine market indicators for trends
- Conduct better cross selling throughout the firm

Not all firms are in this leading-edge mindset, however.

Typically, the Finance Department is the gatekeeper for the numbers. As more business development people are hired from the outside to bring corporate expertise into law firms, Finance is getting bombarded with requests for revenue reports, collections, bills, hours worked per partner, projections, analyses of top-performing clients and more.

Business and marketing leaders are demanding a 360 degree view of the law firm's business development landscape with accurate and insightful segmentation directly accessible by key stakeholders. Their need to identify "best customers" is driving attention toward analytics.

Finance is resource-constrained and challenged to deliver such data on a weekly, if not daily, basis. Invariably, no one ends up satisfied because the demand/delivery cycle is never-ending. Those tasked with business development require access to technology solutions to slice and dice the data according to the intelligence sought.

Feeding and cultivating business development requires analytical business intelligence solutions usually not prevalent in law firms today—although such solutions are increasingly available on the market.

It's safe to say **the legal business development community is underserved analytically**. Technology solutions have not kept pace with demands for analytical information, nor have law firms organized to deliver the information firmwide. Increasingly, the market is demanding a single platform to further the value of individual investments in a logical and value-added solution.

Introduction

LexisNexis® Redwood Analytics® develops analytical solutions that help law firm leaders manage by fact rather than by instinct. According to our studies, annual attrition of existing client hours averages 15 percent.* Firms can combat client attrition by expanding existing relationships. But the effectiveness of this strategy depends upon uncovering hidden relationships and knowing which ones are most likely to grow.

Recently, we introduced an automated business intelligence solution that provides information to strategically target clients across the breadth and depth of a law firm's portfolio. LexisNexis® Client Analysis quickly identifies strategic segments of opportunity to effectively prioritize marketing and business development plans. With easy access to financial analytics, client relationship management (CRM) data and competitive intelligence, teams can segment clients that are most likely to deliver the greatest opportunity for expanded business relationships.

LexisNexis Client Analysis provides:

- **Lifetime value (LTV) assessment of all active clients, detailed and plotted in quadrants**
  Aggregated footprint analysis of clients highlights key work trends, wallet share, billable hours and relationship to guide business growth.

- **Identification of cross-sell opportunities based on client history and assessment of attrition risk**
  Analysis identifies all clients in other important segments, as well as those with potential to be strong performers and those that once were strong performers but have dropped off in recent years.

- **Segmentation of clients into target growth, high-value or low-opportunity**
  This client segmenting approach helps firms identify and define trends across industries and trends involving clients of high value over time (whereas typical "Top Client" lists rank only recent stars).

Redwood Analytics Think Tank findings

The Approach

Business development strategists in law firms need to look at the range of clients in a firm's portfolio. Here are some factors to consider:

- Of 2,500 clients, for example, strategists can parse them into smaller groups and nurture, grow, salvage and resurrect each by maintaining and growing relationships. Breaking a firm's client base into segments with common growth patterns based on lifetime value allows managers to learn characteristics about these groups that can drive more effective marketing and business-development strategies.

- Analytics can examine clients' financial footprints layered with competitive intelligence. By reviewing pivotal information (depth of relationship), strategists can add subsequent layering of analytical information to paint a rich client analysis profile. This leads to improved client targeting for effective cross selling, leading to higher ROI.

- A magnifying lens view provides monthly client analysis including declining hours, billings, growth over time, tenure with firm, cross-selling practices and more. This insight helps firms uncover and cultivate hidden relationships.

- Using analysis tools, firms can form client or industry teams for a wider array of client sizes and develop multiple strategies to aggressively grow various segments across the client universe. Constant monitoring of clients' financial activity breeds more effective business development and higher ROI for a law firm. Expanded segmentation among top, high-value clients helps identify clients in other important segments. This approach can lead to greater efficiency and profitability.

This type of client analysis does much more than create a general approach to marketing—it provides immediate, actionable information concerning the specific clients firms should target—and demonstrates why the firm should take action.

- This approach illuminates the percentage of a firm's work that comes from clients that are inconsistent in the hours provided to the firm. If that percentage is high, a firm should be focused on identifying which of its inconsistent clients are good candidates for initiatives designed to strengthen those relationships.

- Segmenting clients can help firms identify which practices serve in a "feeder" role and really do attract clients that eventually provide the firm with other types of work as well. This data may support anecdotal convictions (e.g., litigation to compliance), or not.

- Client profiling identifies relatively large clients that have been left off recent Top Client lists because they haven't provided as much recent work as newer clients. While it is human nature to focus on newer, more exciting clients, firms neglect older, stable clients to their peril.

## The Competitive Landscape

The goal of LexisNexis Client Analysis is to segment a firm's clients to help strategically prioritize business development efforts. We recommend segmenting a firm's clients in the following manner:

- Examine a firm's full client history to assess the lifetime values of all clients.

- Build upon lifetime value analysis by incorporating knowledge about (a) the firm's relationship strength with clients and (b) insight on the firm's competitors for client business. This compilation provides firms with a full snapshot of key client relationships. It separates clients into those representing a low opportunity and others that can be targeted for growth.

- While firms use LexisNexis Client Analysis to study their own relationships with clients, they can also use it to obtain a powerful context in which to study competitive data on client relationships with other firms.

For example, once a firm measures how much work a key client is sending to a given practice, the firm can look at work of the same type that the client is sending to competitor firms. By measuring both of these over the lifetime of the client's relationship, business development professionals can determine whether a firm's share of the client's work is growing or shrinking.

Plotting Clients into Performance Quadrants

A crucial component of Client Analysis is the recognition that clients producing high value consistently are much more valuable to a firm than the less consistent clients. So we divide clients into four quadrants.
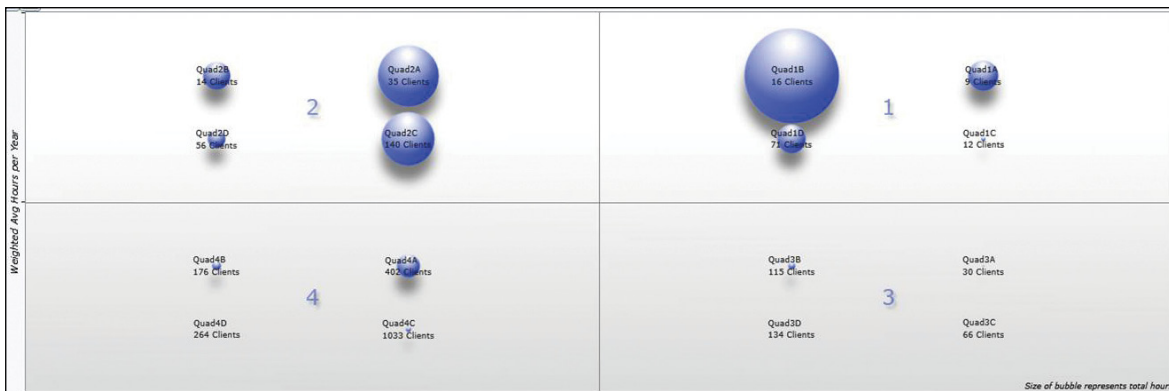
We divide clients into four quadrants to formulate business development plans based on long-term client behavior, as well as client potential. The blue bubbles represent client segments.

Quadrant 1—Clients that deliver the largest amount of work with the most consistency

Quadrant 2—Clients that deliver large amounts of work with less consistency

Quadrant 3—Clients that deliver less work but on a consistent basis

Quadrant 4—Clients that deliver less work on a less consistent basis

Creating marketing plans for these client segments differs dramatically from the approach many firms take to create Top Client lists. The kind of segmentation discussed here drives business development efforts according to client behavior over the long term and client potential, rather than merely by how much revenue clients produced the previous year.

Superstars: Quadrant 1

Chances are most firms will recognize the names of the relatively few clients that fall into the "Superstars" area in the upper right corner of Quadrant 1. These clients likely represent a significant portion of the firm's annual revenue and have dependably brought the firm enormous amounts of work for years. These are the clients for which a firm should make sure it has "Superstar" client teams in place.

It's notable that a firm's superstars almost always start out as high-volume clients (though they don't fall into Quadrant 1 until they provide high-volume work consistently). This client segmentation approach provides the tools to analyze information about the early formative years of client relationships.

Potential Stars: Quadrant 2

You've looked under the hood, and you know the patterns the firm's best clients, i.e., Superstars/Quadrant 1A, have exhibited over their lifetimes to date. We've pointed out that 1A clients almost always start by providing high volumes of work. So a logical approach would be to identify high-volume clients that are relatively new (1 – 4 years old). These clients will fall into Subquadrant 2A or 2B because they haven't yet provided enough consistency to be a Quadrant 1 client.

Perhaps your analysis will reveal that 1A clients typically start by providing large amounts of a particular type of work. This will help further reduce the pool of potential stars.

It is particularly helpful when evaluating potential stars to bring in competitive intelligence. To really understand the true potential of a prospect, it's necessary to know the amount of legal work that is provided to all firms and to have some knowledge of the company's growth potential. Several tools in the marketplace support this type of analysis.

Backsliders: Quadrant 3

What about a client that used to consistently provide the firm with high volumes of work but has dropped off in either volume or consistency (i.e., moved from Quadrant 1 to Quadrant 2 or 3)? The partner with the strongest relationship should be armed with information about the client's history, as well as competitive data concerning whether that client is providing work to other firms.

Loyal but Unknown: Quadrant 4

Think about Quadrant 3, particularly Subquadrants 3A and 3B. These are clients that have been consistent in the amount of work they provide, but volumes are too low for them to have hit the radar screen. While these clients have been loyal to your firm, perhaps they have other types of work they provide other firms and don't know you have the strengths to perform well in those areas. Few clients move from Quadrant 3 to Quadrant 1, but that doesn't mean incremental volume doesn't exist for these clients.

The others that fall into the "loyal but unknown" group are dependable clients who just don't have much legal work. They are unlikely to grow, but since they are loyal, a retention strategy should be in place. Regular touch points should be on the road map, although perhaps not from top-performing (Tier 1) partners.

Looking for Patterns

Given the economic realities of the current climate, most firms will have resources to focus on only the top row of client segment bubbles. But for ambitious firms, it's a good idea to expand the analysis to determine whether any secondary segments deserve a smaller investment of resources. It may turn out that one of these segments contains only 10 clients and therefore is an easy project for one member of the Business Development staff to tackle.

Once Business Development and Marketing have developed a framework for segmenting clients, the next step is to examine these groups for characteristics that would drive more strategic marketing and business development efforts. What did clients in various segments have in common? Did mature clients in a particular segment follow the same path to get there?

Every relevant variable ought to be reviewed using data from the firms' internal systems:

• Number of practices that provided service to the client
• Number of partners who worked on client matters
• Number of "Tier 1" partners who worked on client matters
• Lifetime hours
• Average hours
• Billing rate
• Realization
• Matters per year
• Average matter size
• Attrition risk

Putting Analytics Software to Work

There's likely no law firm that can manually analyze clients across lifetime value. That's why firms should consider using LexisNexis Client Analysis for its ease of use as a Web-based application with four convenient tools.

Self-service access: Easily sort and filter client data in a multi-dimensional environment to create list views across various client segments. Metrics go beyond hours, bills and cash to include cross-sell, consistency percentage, number of partners, number of new matters, etc. Data is updated nightly.


Cross-sell analysis: Create custom intersections of data to illustrate cross-sell by clients, billing vs. working groups, import-export, etc. You can include multiple metrics such as cash, bills, production value and hours.

Trend analysis: Report on activity over time—compare results and metrics over years, quarters and rolling 12-month periods. You can view the last five years of new matters opened, cross-sell, number of partners and other trends. Flip to a chart view for a more visual depiction of trends.

Profiles: Perform detailed segmentation analysis on your client base using financial metrics, wallet-share assessment from the atVantage™ business development solution and relationship intelligence data points. Then, build reports or export and manage lists within InterAction® client relationship management software.
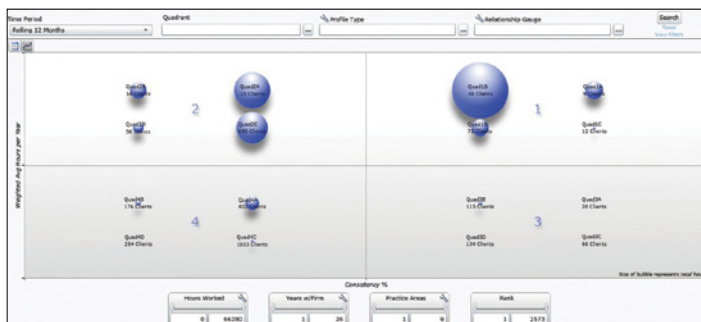
Conclusion

The value of using a segmented approach to client analysis and business development is firm-specific; the paths to developing successful client relationships at one firm may not apply at another. To craft effective business development strategies, firms need to analyze the unique patterns of their own clients.

Ultimately, business analytics methods and tools are developed to drive improved performance. Client segmentation and analysis has the potential to provide a more focused, strategic approach to business development. Given the economic climate, the timing is right for an approach that helps firms spend their marketing and business development resources wisely.

Contact Us

To request more information, go to
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Satkunas leads dedicated research efforts in studying andformulating solutions to law firm management issues. She is committed to an unbiased,structured approach to research that expands the ability to move law firms forward inmanaging the business of law. Think Tank members are law firm leaders who gather ona regular basis to vet new ideas and output resulting from field testing at member firms.Kris shares findings from Think Tank studies through legal industry publications and conference presentations.

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