

Special Issue

Putting Business Intelligence to Work

Delivering Actionable Information To Front-line Lawyers

By John Alber

If a friend tells you that you have something in your teeth, chances are you'll visit a mirror and attend to the problem. *That's* actionable information. It is information 1) from a trusted source, 2) about something that's important to you, and 3) that, once known to you, will impel you to take action.

WINNOWING PRESUMES THE WHEAT IS THERE

Accounting and other enterprise systems amass information that is, almost by definition, *not* actionable by front-line lawyers. Volume of data is inherently at odds with actionability, and a good enterprise system must accommodate volume. It must account for every circumstance, every variable, every iteration. Much of this volume is chaff to lawyers. To be useful, the wheat must be winnowed out and presented to the pricing and staffing decision makers themselves (*ie*, not just to green eyeshade types deep in the firm).

The need for this sort of winnowing has long been recognized, and has

given rise to several generations of winnowing tools. Among the first solutions created were so-called "reporting" tools, which take existing data from enterprise systems and shape it into more intelligible formats. Such tools, standing alone, have a couple of weaknesses.

In the hands of inexperienced users, they often perpetuate the very problem they were created to solve. How often have you seen, for example, reporting tools used to create practice group reports that must be weighed to be appreciated — that tell you everything you never wanted to know? Reporting tools make it easy to report unimportant data.

A more fundamental problem with such tools is that they can only report on data to which they have access. Core information for charting the course of a business often cannot be found directly in basic accounting data; it must first be derived. To address this need, businesses in general and law firms in particular have begun to develop systems that aid in the derivation of core information. These have come to be called business intelligence (BI) systems or business performance management (BPM) systems.

KEY INDICATORS OF BUSINESS PERFORMANCE

The term *business performance management* gives a good sense of how such tools differ from accounting or other enterprise systems, as well as from

reporting tools. Accounting systems amass information relating to every aspect of a business, and a well-run business will certainly want its accounting system to tabulate everything correctly. But a well-run business cannot operate from such a mass of information. Rather it must focus on a few key performance indicators (KPIs).

KPIs are tied to a fundamental business strategy. As often described in the business press, one of Wal-Mart's fundamental business strategies is to attract high-spending customers. Wal-Mart's BPM system tracks annual spending ("total dollar ring") by customer from the company's accounting system, and integrates this figure with data from its CRM system (and perhaps others) to ascertain the characteristics of high-spending customers. Wal-Mart then structures its business to pull in more such customers.

Wal-Mart makes most of its key business decisions — product selection, pricing, etc. — centrally. Law firms, on the other hand, distribute much of their decision-making to partners and other relationship lawyers. That means law firm BPM systems must deliver information that is meaningful to and actionable by front-line lawyers — the partners and others making pricing and staffing decisions every day.

INCREASING AWARENESS OF METRICS

It is tempting for law firms to adopt a single metric as their focus — much

John Alber is the Technology Partner for Bryan Cave LLP, a diversified practice firm with offices across the U.S. as well as in the UK, Middle East, and Far East. A former technology company CEO in the transportation sector, he leads the firm's Client Technology group and sets technology strategy for the firm as a whole. He can be reached at jjalber@bryancave.com.

like Wal-Mart. Indeed, you might say that annual billings have been adopted as a top-order metric, given that partners are often paid based on total billings and little else. The difference between Wal-Mart and a law firm, however, is that Wal-Mart controls its margins precisely. It manages price and cost better than almost any business in the world. It knows that every dollar of sales will yield a certain margin of profit (another BPM metric). With that degree of discipline in place, it can focus on total dollar ring and achieve extraordinary returns.

Not so with most law firms. Law firms with conscious, well-planned strategies are a rarity. Still rarer are firms that have extended their strategies into economic fundamentals and metrics. Who in most law firms can accurately say what a dollar of new business contributes to profits? Or what it should contribute to align with the strategic plan? Imagine the advantage that accrues to those firms where front-line lawyers can answer such questions.

To understand how well-chosen business performance metrics might operate in a law firm, let's take an example, using my own firm's unique BPM system.

USING GRAPHIC IMPACT TO PROMPT ACTION

Imagine that you're a partner in a large law firm. Things are going reasonably well. Your billings are a tidy \$2 million a year. You don't feel too bad about your rates and your clients aren't complaining about them. That's great. What's more, your realization is running above 90%. You are on top of the world — and from that position oblivious to some fundamental problems with your business. What business performance metric might give you critical insight into the nature of your business? How about the Billing Contribution gauge shown in Figure 1?

With one glance at your BPM "dashboard," you can see that your matters contribute roughly half as much profit to the firm as the average matter. That information is actionable: if you're like most partners, you will want to do

something about it.

Your first reaction, which would seem a natural for lawyers, might be to attack the system that gave rise to the troubling information. That is why developing trustworthy data at the foundation of a BPM system is essential.

A more likely result, however, is for you to want to learn why your matters are not contributing more profit. Lawyers will be curious about such things in a climate:

- That has been carefully prepared with messages from top leadership;
- That is carefully supported by marketing, business development, practice management and other professionals who can advise working lawyers on their practices; and
- That rewards curiosity by providing concise additional detail to help the inquirer understand the significance of the metric. Our own system, the development of which I'll speak to below, provides such information in an Hours Leverage gauge, as shown in Figure 2 on page 7.

In this case, the Hours Leverage gauge reveals that the ratio of your hours to those of all other non-equity fee earners in your matters is only about a third of the average for partners in the firm.

It may be that such low leverage is necessary, depending on your practice. But either that leverage or the average per-hour pricing for all fee earners in your matters — which we capture in another metric — has to rise for you to attain even average profitability.

(Controlling cost might be an option too, ala Wal-Mart, but since your leverage is low, most of the costs you incur are related to *you*. You're probably not wild about having

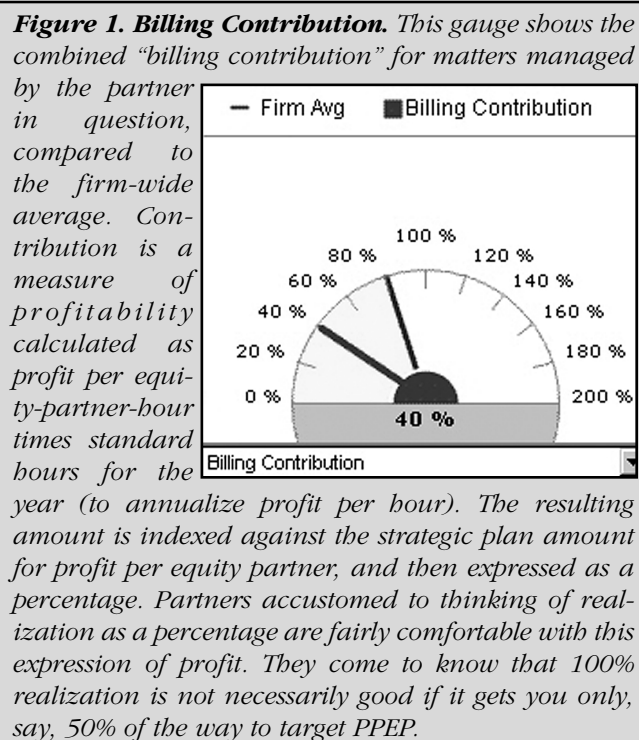
your pay cut, so it's best to look elsewhere.)

How to increase profit margins in your matters is a discussion best had with marketing, business development and practice management professionals inside your firm. Note the implication: it is insufficient to simply offer BPM software to lawyers. You must also offer practice support that is aligned with and informed by the BPM system.

DEVELOPING MEANINGFUL METRICS

These bits of information — profit contribution, hours leverage and average rate — are among the half dozen "actionable" metrics that my firm carefully chose to align with its business strategy. Choosing this set of metrics required many long sessions with the firm's chairman and executive committee, and with our marketing, business development and practice management professionals, as well as others. In all these meetings, we needed to think about our business not just from a practice standpoint, but from a financial standpoint as well.

As part of our strategic planning process, we chose our destination — where we wanted to land. Our BPM metrics now serve as rudders to help our lawyers guide us to that destination.



BPM gives lawyers genuine control over where the firm goes.

The benefits of using these BPM tools are extraordinary. Because we can now model engagements to better understand the impact of alternative staffing and pricing arrangements, we can bid on business that our old rules of thumb would have prevented us from seeking. Our lawyers are also becoming increasingly astute about the impact of their pricing and staffing positions on firm profitability. Indeed, we have measured BPM dashboard use and correlated it with the strength of BPM metrics. We find that there is a very high correlation between use of these tools and strong metrics. The more they use these tools, the smarter our lawyers get about economics and the more flexible they become about what pricing and staffing structures they consider.

AN EXAMPLE: ONE PATH TO IMPLEMENTING A BPM SYSTEM

It would have been ideal had our core business metrics been readily available straight from our accounting system, but they were not. Arriving at those metrics required that we pull together raw data and then perform

some complex operations on it. To do that, we collected all necessary data in a *data warehouse*.

In addition to our accounting system, a number of other systems now feed the warehouse: data streams come from our timekeeping system, our new matter and conflicts system, our HR system and other systems as well. The data warehouse collects information in periodic batch updates and then stores it in a manner that permits rapid and precise querying and reporting.

On top of our data warehouse we built a series of related applications that permit front-line lawyers to manage the life cycles of their matters. One application, for example, lets lawyers experiment with preliminary models for new matters using different staffing and pricing mixes. Costs, rates and other necessary data are drawn from the warehouse and then manipulated to show lawyers the economics of their various mixes quickly and easily. With this tool, lawyers can price engagements much more creatively and competitively.

Our BPM system also captures comparative historical data and lets lawyers review all their clients and matters to see how their pricing and staffing decisions played out. Comparative data properly presented can help lawyers learn from their own decisions. Some matters will be more profitable than others. Letting lawyers identify those matters and then drill into them to understand their mechanics helps create

an informed intuition. That intuition will then manifest in later matters as front-line decisions more closely aligned with the firm's strategy.

Bryan Cave's Client Technology group — an assemblage of lawyers, software developers, business analysts and others focused on client-facing applications as well as BI tools — is quite unusual in its capabilities. However, you needn't despair if your firm (like most others) lacks the resources to develop data warehouses and the software applications that make use of them. There are now several BI vendors that can assist in deploying warehouses and BPM applications for law firms.

Indeed, having built our own system initially, we recently turned to a leading BPM vendor — Redwood Analytics, Inc. (www.redwoodanalytics.com) — to manage our warehouse going forward. This will enable us to focus on strategy and create the next generation of BPM tools for our firm.

We chose Redwood because of its extraordinary BPM acumen and alignment with our needs, but there are other vendors as well. Finding the right vendor for your firm will require that you begin to lay down your own strategy and match your needs with the capabilities of those vendors. The best vendors will help make that process straightforward.



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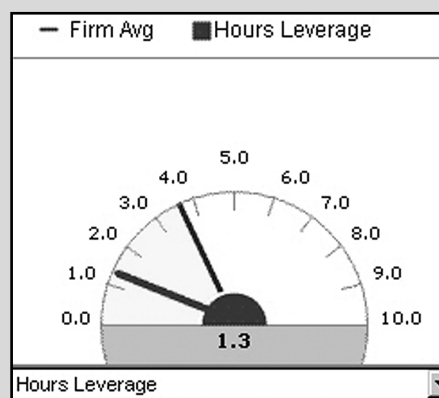


Figure 2. Hours Leverage. This gauge shows “hours leverage” for all matters managed by the partner in question and compares it to the firm-wide average leverage. Hours leverage is a ratio of equity partner hours as against all other fee earner hours in the subject matters.