

# How Using KPIs Can Increase your Law Firm's Profitability?

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Like any successful business, the success of your law firm's profitability requires dedication, hard work, and attention to details. This means that you should be running regular reports about your firm's performance in order to identify areas for improvement and make necessary changes. Key Performance Indicators (KPIs) are often talked about within the business arena, but many lawyers have no clue what they are or how they can help them increase their firm profits.

The following is a detailed discussion about KPIs and why you should be using them to make your law firm more profitable.

## What are KPIs and how are they used?

As defined by Investopedia, KPIs are "quantifiable measures that a company uses to gauge its performance over time. These metrics are used to determine a company's progress in achieving its strategic and operational goals, and also to compare a company's finances and performance against other businesses within its industry."

KPIs are extremely important to an organization because, when used correctly, it can be used to reach [strategic long-term goals](#). For example, once a company sets specific long-term goals, they can identify specific indicators that will show them whether or not they are moving towards that goal. By regularly reviewing these KPIs, business leaders can identify problem areas in a timely manner, making necessary tweaks and changes that will keep the company on track towards the target.

KPIs are also useful for educating business leaders about various aspects of their company. For example, as the owner of a law firm, you may be hyper-

focused on bringing in new clients and providing stellar legal services. You have been charging the same hourly rate for more than 20 years and you have no clue that your local counterparts are routinely charging twice your rate and getting it. The right KPI would have alerted you to that information long ago, providing you an opportunity and [justification for raising your hourly rates](#), as well as law firm profitability.

## Useful Law Firm KPIs

The following are some KPIs that are specifically useful for law firm owners who are seeking to increase their law firm's profitability.

- **Realization** – Most attorneys still bill clients by the hour, but it does not matter how much you bill if you are not receiving the total billed amount. Realization is the rate that you are receiving payment for your billed hours. It is calculated by dividing the amount you billed by the total amount you collected from your clients. For example, if you billed a client for 10 hours of work, and they only paid for 5 hours of work, your realization rate is only 50%.

Once you have established your realization rate, you can do a couple of things. First, look for any patterns or systems that may be contributing to low realization. Perhaps your bills are not detailed enough or you don't have systems in place to make invoice payment easy for the client. Then, take that information and make necessary changes to your firm processes. Even a small increase in realization equals greater law firm profitability.

- **Client Satisfaction** – Word-of-mouth and referrals are extremely important within the legal profession. [What your clients say](#) about your services can result in consistent new business or a very empty waiting room. By implementing a client satisfaction KPI you can gauge your client's approval with your firm, while also identifying areas for improved client relations.

A client satisfaction KPI can be accomplished in a number of ways. You can ask your clients to complete a satisfaction survey – once during your representation and once after. You can also ask your clients to take part in

an exit survey with a staff member or uninterested third party. This is a very effective way of determining client satisfaction.

- **Matter Profitability** – Are some of your practice areas more profitable than others? Do some of them result in way more trouble than profit? How are you going to answer either of these questions without reviewing the relevant indicators? Determining matter profitability involves looking at the total allocation of direct and indirect expenses for each matter and subtracting them from your realization (total collected fees).

This is an essential step in the KPI process because only looking at your hours billed, or invoice totals fails to give you an accurate view of how much profit is actually being made from each matter. You may be surprised to learn that certain client engagements result in higher costs, while others typically result in higher profits. You can then use this information to make a strategic decision about the direction of your firm and where your resources are best spent.

- **Marketing Expenditures** – This entails a few indicators. First, how much of your operating budget is being spent on marketing in total? Next, how much of your budget is being spent on individual marketing techniques? Lastly, which marketing techniques are most effective at bringing new clients through the door?

There is no sense in throwing money into marketing that is not working effectively. A marketing KPI helps you review your marketing strategy on a regular basis, so you can move your money and efforts around to the strategies that yield the highest results. You wouldn't continue putting money into sinking investments. Why put it into failing marketing techniques?

Always remember that knowledge is a necessary part of increasing profitability within your law firm. With the right KPIs, you can keep a constant eye on your firm's progress, while identifying areas for necessary improvement. The more [data and information you can collect](#), the better equipped you will be to make effective decisions about the direction of your legal practice.

Putting systems in place to measure KPIs is not difficult, particularly if you have a law software that allows you to easily run numerous reports with a few clicks of the mouse. TimeSolv users have access to numerous reporting options. To learn more about how TimeSolv can help you implement and maintain an effective KPI measurement system, click [here](#).

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**About Erika Winston:**

*Erika Winston is a freelance writer with a passion for law. Through her business, The Legal Writing Studio, she helps legal professionals deliver effective written messages. Erika is a regular contributor to [TimeSolv](#) and a variety of other publications.*