

PeerMonitor™

Real-time Business and Competitive Intelligence

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Law Firm Benchmarking Establishing Best Practices

It's Lonely at the Top

Running a major law firm today is no easy task. Every year, *American Lawyer* publishes its version of financial reality, and every partner stops to see how he is doing compared to the Joneses. If your firm has moved up the ranking, you're a hero. If you've slipped, everyone is quick to blame firm management. If you're tough on the partners who aren't at peak performance, you're accused of destroying the firm's culture.

If you fail to act aggressively, you're accused of failing to provide leadership. No matter what your size, you have to worry about becoming part of the food chain: somebody bigger than you is thinking about eating you up, and you'd better be thinking about swallowing someone else.

Competitive information flows to you in fits and starts. It seems like that firm across the street is able to command higher rates, but somehow they underbid you at the last "beauty contest." Your real estate department is slow; they're blaming a lack of deal flow. Then you hear that your competitor just brought in two new laterals for their litigation practice. You're trying to decide if you should open a new office in "City X." How can you assess the viability of the market?

You decided to make practice groups the centerpiece of your management structure. The ink was barely dry on the org chart when the trouble started. The practice groups started fighting over

budget money and headcount. Everybody is looking to you to provide guidelines for their practice. What should we be spending on marketing? What should we spend on hardware? Software? Everybody has a lateral they want to hire – if we don't bring her on now, the competition surely will.

West to the Rescue

West has launched an initiative to help chairmen, managing partners, practice group leaders, executive directors and other firm managers run their business based on solid, reliable information. We have brought together the talent and experience of multiple parts of the Thomson organization to build a special product, PeerMonitor™, that delivers business metrics and analysis that will help you make real-world decisions. Here's how it works.

Let's suppose your firm subscribes to PeerMonitor. We install a special software application that once a month scans your firm's back-end accounting system (or, preferably, your back-up system), and automatically compiles a table of raw data, ready to be turned into meaningful metrics. After review by a designated member of your accounting team, these metrics are normalized and electronically sent to the West data center. All data is encrypted and scrubbed of any identifying names (including the name of the firm, attorneys or clients). The data from all participants in PeerMonitor are then aggregated into a single highly secure database. All of this can happen literally days after the financial close of the month.

Key members of your firm's management team are given special logins to the PeerMonitor Web site. This site is built to deliver a personalized dashboard of critical business metrics. Using powerful analytic and graphic tools, you can see how your firm is performing against your industry's peers. Whether you are interested in revenue growth or expense control, pricing or receivables, our tools show how you're performing compared to your peers. Are you above or below the median? Is your performance ranking improving?

Suppose that you've just closed the second quarter of your fiscal year and are preparing for your management team's quarterly review. You see that you are five percent below target; just barely even with last year's results. To prepare your message to the team, you want to know if this is happening just at your firm, or is it industry-wide. To maximize the value of the quarterly review and spur improved results, you need specific information now – not next quarter, certainly not next year. West's PeerMonitor is designed to give you near real-time access to that vital competitive intelligence, a critical companion to internal BI tools.

What Intelligence is Most Powerful?

Let's look at one typical financial metric: average revenue per lawyer. We might be interested in this statistic for the firm as a whole; how does it compare to the performance of other firms? We may, however, find that a simple firm-wide statistic is too aggregated to be meaningful. What is our average revenue for the employment practice group? For the IP group? How does this compare to similar groups at our peer firms? Analyzing by practice group is one possible dimension. PeerMonitor provides multiple dimensions. The most basic is time. What is the trend: Is our average revenue moving up or down relative to our peers? Location is another fundamental dimension: How does our D.C. office compare to other D.C. offices? How does it compare to local D.C. firms? Finally, attributes of people define a dimension: What is our average revenue for fourth-year associates, for non-equity partners, for all types of timekeepers?

PeerMonitor provides analytic tools that enable participants to take advantage of all this dimensional information. You are able to combine dimensions: Let's look at the employment practice group in the Los Angeles office. Let's look at associates in the employment practice group in the Los Angeles office compared to our peer group. Let's look at that information compared to last year, compared to the year before.

The key is our automated software tools, powered by SAS®, one of the most sophisticated and powerful intelligence platforms in the marketplace. By gathering metrics at the component level, we can build a detailed database that your firm can "slice and dice" in order to help you understand exactly where you are strong, and where you need to improve.

Metrics for a 3-Pronged Strategy

Let's divide your firm's strategy into three objectives:

1. Increase partner value
2. Grow the business
3. Achieve operational excellence

PeerMonitor is geared to provide concrete, useable measures that help you and your management group gauge your success within each of these strategic initiatives. Here are a few examples of how our metrics work for you.

Increase Partner Value

Metric	Strategic Objective
Average standard bill rate Average worked bill rate Average collected bill rate	What are real billing rates (not just what's quoted)? How do we compare by timekeeper category? By geographic market and practice?
Hourly leverage FTE leverage	How effectively is the firm deploying its most costly, and important, resources? How does the firm compare by office and practice?
Profit per partner Profit per lawyer	Measure your bottom line to your peer group.

Grow the Business

Metric	Strategic Objective
Fees collected per FTE lawyer, per partner	Fundamental measure: You can grow the business by increasing your revenue from each lawyer.
Indirect expense growth	Is your expense growth in line with your revenue growth? Are the nation's most profitable firms investing differently in growth?
New office locations	Explore rates, expenses, and profitability in new geographic locations.

Achieve Operational Excellence

Metric	Strategic Objective
Collected to billed realization Collected to worked realization Billed to worked realization	The classic law firm metrics that track the ability of your firm to turn worked time into cash.
Billing speed Collection speed	How fast do you turn work time into cash? Are you effectively utilizing your assets?
Percent of aging A/R	Fundamental measures of financial good housekeeping.
Operating expenses per lawyer	Regardless of your expense mix, this is a good measure of overall efficiency.

PeerMonitor offers five categories of measures: pricing, profitability, revenue, accounts receivable, and general ledger. By focusing on the measures within each category that are key to your firm's strategic objectives, you are able to effectively benchmark your performance against the latest market conditions.

Peer Pressure

The goal of this initiative is to provide your firm with meaningful peer groups to compare yourself against. We have a simple means of achieving this goal: You define your peer group. Select five or more firms from our list of participants, and we will define that group as your peers for benchmarking purposes. By requiring a peer group to consist of no fewer than five firms, we ensure the confidentiality of everyone's data and compliance with antitrust protocols. By allowing you to define the group, we know that the intelligence will be of great value.

In addition to your main peer group, PeerMonitor allows you to compare yourself to an unlimited number of other groups. For example, your IP practice may elect to benchmark against a particular set of firms. Your New York peers might be different than your DC peers. You could also select as a peer group the most profitable firms in the nation or a region. You can think of this group as setting the standard for achievable best practices (achievable since we're not comparing you to dissimilar organizations).

You will, therefore, have multiple benchmarking standards, each useful for its own purpose.

- **Main Peer Group:** how you stand relative to a group of five or more firms selected by your firm.
- **Practice or Office Group:** how you stand relative to key competitors in various markets.
- **High Profit Group:** how you stand (for all measures) relative to the firms in your cluster with the highest profit per equity partner.

A Brief Note on How We Do It

We need to make sure that our metrics are comparable. When you look at your litigation practice group and compare it to our metrics, you need to know that you're comparing apples to apples. If you want to compare your ratio of technology expenditure to the technology expenditure of other firms, you want to make sure that everyone is defining "technology" in the same manner.

The PeerMonitor team has built a standard set of expense, timekeeper, title and practice group definitions. When we install our data collection software at your site, we work with your staff to map your definitions to our standards – without affecting in any way how information is coded and stored in your firm's systems. Our central database – which is, by the way, world-class in terms of information security – holds all statistics using this set of standards.

For example, let's suppose that your corporate practice group includes real estate law. Since our standards state that these are two separate categories, we hold the information in our database as two separate groups (so that we're always comparing firms using like criteria). This mapping will not change the data in your system, but will "restate" some of your data to make it comparable to the other firms in your peer group.

This same technique is used to analyze financial statements. We take your expense and revenue categories and map them to our standardized categories – again, without requiring any changes in firm reporting. This gives us the ability to compare expenses across firms. It takes some work up front to set this up, which our implementation team handles, but the payoff is huge.

The Bottom Line

By becoming part of PeerMonitor, you and your firm's management will have the real-world information that is necessary to build and realize your own strategic objectives. We deliver information that you can use in a form that you can understand. You will have the information at your desk at the close of each month – when it is fresh and meaningful. You will be able to understand how your business stands across multiple dimensions. We give you the tools to help you grow your business, increase the value of your existing people and clients, and improve your operating efficiency. In the end, West's PeerMonitor is sure to improve your bottom line.