METRICS TO IMPROVE LAW FIRM MARKETING EFFECTIVENESS

EXAMPLES AND ANALYSIS

For those interested in more information about these metrics, the following examples and analysis are helpful:

Assumptions:

- Average annual revenue per client $25,000
- Average profit margin before marketing costs 37.5%
- Average length of client relationship 4 years
- Total marketing spend for new clients $381,950
- Total marketing spend for existing clients $137,950
- Total extra marketing spend for new work from existing clients $20,100
- Total marketing spend $540,000
- New clients during period 50
- New work from existing clients 11
- Existing clients start of period 435
- Clients end of period 458
- Firm size 30 lawyers
- Annual revenues $12,000,000
- Marketing spend 4.5% of revenue

With this basic information, a firm can analyze the efficiency of their marketing spend and whether they are attracting the right clients at the right price. For example, a supercharged marketing program with a relatively high Client Acquisition Cost must produce top quality clients at favorable rates to remain economically viable. The metrics below are useful in determining if a particular marketing strategy is achieving the right results.

Client Acquisition Cost (CAC):

The formula for recalculating Client Acquisition Costs is as follows:

$$\frac{\textbf{Total new client marketing spend \$}}{\textbf{Total period new clients}} = \textbf{CAC}$$

$$\frac{\textbf{\$381,950}\ \text{(Total new client marketing spend)*}}{\textbf{50}\ \text{(Total new clients)}} = \textbf{\$7,639}$$

(Avg. New Client Acquisition Cost)
CAC

**See the link table below for a sample marketing spend analysis.*

Considering that average client revenue is only $25,000 annually, a concern with this level of new client acquisition cost, which equates to 31% of first-year fees. Given a profit margin before marketing costs of 37.5%, the first year profit is virtually wiped out. To determine if this expenditure is worth the ultimate returns, calculating the average lifetime client profit after marketing is necessary.

AVERAGE ANNUAL REVENUE PER CLIENT	**$25,000**
Average length of client relationship	4 years
*Average lifetime client revenue ($25*4)*	$100,000
Average New Client Acquisition Cost (CAC)	$7,639
Average Ongoing Client Retention Cost ($350 for 3 years)	$1,050
Total average Client Acquisition and Retention Costs (marketing portions)	$8,689
Average Profit Margin Before Marketing (APM BM) costs	37.50%
*Average lifetime client profit (ALCR $100,000*APM BM 37.5%)*	$37,500
Average lifetime client profit less marketing and retention costs	$28,811
Average lifetime profit margin on client account	28.81%

Further analysis indicates that the cost of marketing is 28.81% over the life of the sample account. For firms trying to exceed 35% client profit margin, the cost of client acquisition may be an issue. Additional factors to consider include the efficiency of marketing efforts, the success/failure rate of new client acquisitions, growth rate, pricing competitiveness, and cost structure.

For example, a firm that is underpricing the market may be able to reduce client acquisition costs since a lower price is likely the dominant reason for attracting new business. Alternatively, a quality marketing approach that robustly communicates a firm's full value, assuming it is superior, could produce higher fees.

Comparing individual attorney marketing efforts, evaluating the efficiency of individual marketing initiative and client level calculations would yield additional insight. Finally, operational factors such as overhead structure and billing realization must be considered.

Recognizing that much of a firm's overhead will remain constant with or without a new client, some firms may be tempted to evaluate contributions before non-timekeeper costs are applied. This type of thinking has application in the short run, but in the longer term becomes a serious issue for law firms. Unlike software or manufacturing environments that can scale production or users at a rapid rate, legal work requires differing skill sets, talent levels, and human resource limitations.

Time to Payback (TP):

One metric that law firms may appreciate is time to payback. The formula for calculating time to payback expressed is as follows:

$$\frac{\textbf{Client acquisition cost (CAC) \$}}{\textbf{Average gross margin \$}} = \textbf{TP}$$

Assumptions:
Average monthly fees: $2,083
Average monthly gross margin $1,042
Client acquisition costs: $7,639

$$\frac{\textbf{\$7,639 (CAC)}}{\textbf{\$1,042 (Average monthly gross margin)}} = \textbf{7.33 months}$$

(TP) Time to Payback

In this example, it would take 7.33 months to recover marketing costs and begin contributing positively to overhead and profit. In high-growth firms that are regularly adding new clients, this payback period must be included in cash flow plans.

Origination Analysis

Marketing Originated Client % and **Marketing Influenced Client %** are two metrics that provide insight into the effectiveness of the firm's marketing programs expressed in terms of direct and influenced results.

Depending upon practice type, attributing a client to a particular marketing program may be easy or difficult. Law firms marketing to consumers and small businesses are often able to determine the actual source of a new client. Firms that market directly to clients who require a high degree of personal contact, may have a more difficulty determining the effectiveness of a marketing program. In these instances, the second of the two metrics addressing the influence of marketing on new client acquisition may be more valuable. To demonstrate how these calculations work, let's use the following formulas and assumptions:

Marketing Originated Client (MOC) %

$$\frac{\text{New clients in the period resulting from the marketing program}}{\text{Total new clients in the period from all sources}} = \textbf{MOC \%}$$

An example of a marketing originated client would include a direct client contact or response to a CTA (call to action) on the firm's website. Typically, traffic is driven by a blog post or some other content experience (SEO, website content, webinars, magazine article, offer, public speaking, social media, etc.).

As mentioned above, I believe that this metric is presently more useful to practices that market directly to clients who prefer to engage, at least initially, on-line.

Marketing Influenced Client (MIC) %

A marketing influence metric is much more relevant for firms that view marketing as a support to in person contact. In these situations, marketing is designed to build a value proposition before direct contact with clients. The basic formula for calculating a marketing influence metric is as follows:

$$\frac{\text{Total new clients in the period that interacted with marketing}}{\text{Total new clients in the period from all sources}} = \textbf{MIC \%}$$

An example of marketing influence would include a favorable comment from a prospective client about the quality of your last blog post. Another example would be a favorable comment about a promoted recent event (victory, decision, appointment, etc.). In these instances, the firm's marketing program is having a positive impact on the client procurement process. Using the following assumptions we can create an example of how this may work in practice:

Assumptions:
New Clients in the period 50
Expansions of existing clients in the period 11
Total new clients and expansions in period 61 (50+11)
Clients directly contacting the firm as a result of marketing 10
Total clients 458
Clients identifying with the elements of the firms marketing strategy 188

Marketing Originated Client % = 10 /61 or 16%
Marketing Influenced Client % = 188/458 or 41%

In our example, 16 percent of the new business attracted was a direct result of the marketing program, and 41 percent of all clients influenced by the marketing program. Combining the marketing originated/influenced and the profitability metrics, a firm would gain the insight necessary to evaluate the effectiveness of their marketing program.

This type of high-level analysis is possible when taking the time to collect the data and interpret the results. Access to benchmark peer data for comparison would be nice to have; it is not necessary. For Firms can create internal data points and continue improving their processes.

For many, this endeavor may seem too complicated, but it is necessary to understand the relationships between marketing spend and new client successes. This type of analysis will enable a firm to make informed marketing decisions based on actual results rather perception. Those that continue to take an undisciplined approach to marketing will likely spend more and achieve less than their more competent competitors.