Pattern Recognition: Predicting Matter Leakage and Driving Client Profitability through Data Analysis

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Discussion Roadmap

• Nature of the Leakage Challenge

• Why Current Approaches Don’t Work

• A Data-Driven Approach
  – Matter Scoring at Intake
  – Matter Monitoring, Real-Time Severity Scoring & Playbooks

• Key Learnings and Evolutionary Process
Nature of the Challenge

managing matter leakage systematically
Problem #1: Cash Leakage Across the Pricing Lifecycle

<table>
<thead>
<tr>
<th>Measure Leakage</th>
<th>Measure Value Creation</th>
<th>Measure Lost Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 Base Rate</td>
<td>Prem 1</td>
<td>Prem 2</td>
</tr>
<tr>
<td>Value</td>
<td>Discounts</td>
<td>Worked Rate</td>
</tr>
<tr>
<td></td>
<td>W/D</td>
<td>Billed Rate</td>
</tr>
<tr>
<td></td>
<td>W/O</td>
<td>Collected Rate</td>
</tr>
<tr>
<td></td>
<td>Direct Costs</td>
<td>Gross</td>
</tr>
<tr>
<td></td>
<td>Overhead Costs</td>
<td>Net</td>
</tr>
</tbody>
</table>

$ Billions of Dollars at Stake for Large Law

~79% Net Collected Realization
Problem #2: Precision and Scalability

• How many projects can your team reasonably manage (well)?
• Where do you set the thresholds?
• Active vs. passive management?
  – Pros/Cons of passive? Does it create too much noise?
• Politics of Matter Oversight and Intervention
Current Engagement Methods

current approaches have exposures
# LPM Initiation – Traditional Approach

<table>
<thead>
<tr>
<th>Tactic</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collecting fee estimates at the intake stage</td>
<td>Assists in triaging NBI requests (i.e., approvals only required above a threshold)</td>
<td>Not reliable due to lack of rigor, strong forecasting bias, and/or source of information</td>
</tr>
<tr>
<td>Requiring formal budgets above certain threshold (may include client OCGs)</td>
<td>Increases rigor and encourages better LPM hygiene at initiation stage</td>
<td>Slows swiftness of intake procedure. Urgency may incentivize stakeholders to “game” the system</td>
</tr>
<tr>
<td>Blocking time entry/billing if matter exceeds threshold with no budget submitted</td>
<td>Addresses compliance concerns</td>
<td>“Stick” approach may be challenging from a cultural and feasibility standpoint.</td>
</tr>
</tbody>
</table>
Common Points of LPM Engagement

1. Pitch Stage
   - No

2. NBI Stage
   - No
Common Points of LPM Engagement

1. Pitch Stage
   - No

2. NBI Stage
   - No
Common Points of LPM Engagement

1. Pitch Stage
   - No

2. NBI Stage
   - No

3. Write Down Stage

Revenue leakage
Common Points of LPM Engagement

1. Pitch Stage
   - No

2. NBI Stage
   - No

3. Write Down Stage

4. Post NBI Compliance
   - Yes

Revenue leakage
Matter Scoring and Monitoring
using data to target and scale the process
The bad debt predictor model will be applied against new clients on matters that have not directed a retainer and adding historical billing partner realization performance. Those matters will be tagged for monitoring at material checkpoints during the engagement.
Things We Factored

• Focus on new clients (but extended to existing based on existing client risk score)
• Notion of scoring a matter for risk of leakage
• Scoring the billing lawyers with a FICO-like score
• Factoring in historical and real-time calculations
• Examining matter characteristics like retainers, fee estimates
• Reviewing work types
Initial Scoring Model for New Clients

Model Based on 0 to 100 with 100 the Highest Risk
The Rise of Monitoring

how monitoring has become a centerpiece of the model
The bad debt predictor model will be applied against new clients on matters that have not directed a retainer and adding historical billing partner realization performance. Those matters will be tagged for monitoring at material checkpoints during the engagement.
Monitoring Workflow

**Weekly Process**

- **Matter Score**
  - Intake
- **Matter Data**
  - Monitor
- **Real-Time Matter Severity**

**Measures**
- Matter Score
- Total Inventory
- Total Inventory
- Aged Inventory
- Consecutive Weeks
- Aged WIP
- Client Type
- Aged AR
- Client Severity
- WIP Growth
- Aged Inv as %
- BP FICO

**Events**
- Aged WIP, WIP Spikes, Aged AR, Realization Drop, Tagged

**Special Views**

**Actions**

**Tagging & Management**

**Playbooks & Process**

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**Matter Score**

**Total Inventory**

**Aged Inventory**

**Consecutive Weeks**

**Aged WIP**

**Client Type**

**Aged AR**

**Client Severity**

**WIP Growth**

**Aged Inv as %**

**BP FICO**

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**Playbooks & Process**

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**Alert Thresholds (must exceed one)**

1. Aged AR to RSL2: Aged AR over Rolling 12 Months > 10%
2. Aged URF (WIP): Aged Unbillable Time (period 2 or 3) / Total Unbillable Time > 10%
3. Realization Drop: 3 weeks decrease in Standard Realization < 10%
4. Aged URF (WIP) to RSL2: Aged Unbillable Time (period 2 or 3) / Rolling 12 Fees > 25%
5. WIP Spike: 3 week WIP Growth / Rolling 12 Fees > 15%
Case Study: Monitoring Rates of Change (Bad Debt)

<table>
<thead>
<tr>
<th>Alert</th>
<th>Alert Type</th>
<th>Alert Date</th>
<th>MSP</th>
<th>Total WIP</th>
<th>WIP Growth</th>
<th>Aged WIP</th>
<th>Aged AR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>WIP Spike 1</td>
<td>08-11-19</td>
<td>High</td>
<td>$XXXXXX</td>
<td>52%</td>
<td>46%</td>
<td>$0</td>
</tr>
<tr>
<td>2</td>
<td>Aged WIP</td>
<td>08-25-19</td>
<td>High</td>
<td>$XXXXXX</td>
<td>15%</td>
<td>65%</td>
<td>$XXXXXX</td>
</tr>
<tr>
<td>3</td>
<td>Aged WIP/WIP Spike 2</td>
<td>09-01-19</td>
<td>High</td>
<td>$XXXXXX</td>
<td>96%</td>
<td>68%</td>
<td>$XXXXXX</td>
</tr>
<tr>
<td>4</td>
<td>Aged WIP/WIP Spike 3</td>
<td>09-08-19</td>
<td>High</td>
<td>$XXXXXX</td>
<td>75%</td>
<td>70%</td>
<td>$XXXXXX</td>
</tr>
</tbody>
</table>

Matter velocity increasing; carrying significant and unexpectedly high aged inventory – a known leakage risk

Alerts triggered >30 days before pre-bill stage; notifying firm of risk early enough to mitigate leakage
Two Major Evolutions That Accelerated the Project’s Impact

Dynamic Live Scoring

• Monitoring Event Types and the Potential of Playbooks
  – WIP Spikes
  – Aged WIP
  – Aged AR
  – % Agings

• Emphasis on Action Leading to Playbooks

• Resulting Effect was the Production of a Client Score for Existing Matter Risk Assessment

Agile Visual Reporting

• Smart Reporting Views That Exploited the Monitoring Event

• Following a Continuously Evolving Framework Joining Custom Financial Pulls with Visual Reporting (Tableau)
Key Takeaways

• There is true potential in your data to reduce leakage

• But it requires forward-looking design, exploiting data with a commitment to new processes to reduce leakage

• Smart visual reporting can leverage your resources and guide you to trouble spots and focus areas

• Insights and value can multiply: this project started scoring matters statically at intake, which led to dynamic live scoring with target visuals, which led to client risk scoring overall