Legal Week
9 June 2011

Pass it on and track it


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Law firms taking advantage of modern referral management techniques are reaping the rewards of their lawyers' relationships. LexisNexis' Gina Connell explains how to maximise results with minimal effort

A recent study by Martindale-Hubbell (Lawyer to Lawyer Referrals, 2010 Research Study) found that for 26% of respondents, referral income provided more than 20% of overall firm income. And yet 27% of the respondents did not track referrals at all. More pertinently, 94% of respondents were confident that the current value of referral work would either remain constant or increase over the next 12-18 months.

Despite its vital importance, referral management remains a significant problem area for most law firms. Typically, firms manage inbound referrals reasonably well, but find the management of outbound referrals difficult.

Firms generally leave the recording of referral information to individual fee earners' discretion, often resulting in either events not being recorded or the task becoming a part of individuals' personal business development efforts – rather than being an integral part of firms' co-ordinated marketing and business development initiatives.

Why track referrals?

Effectively managing inbound and outbound referrals is an important component in the management of a modern law firm. Firms that invest time and resources in doing it well achieve a number of objectives – from helping to bring in new business and enhancing client satisfaction to ascertaining who the firms' major business partners really are and evaluating the effectiveness of business development efforts.

Law firms already operate in a competitive environment – a trend that will accelerate with the full implementation of the Legal Services Act 2007. All law firms must maximise every source of new business. Manually attempting to track referral opportunities is a tedious task, and one that interferes with the core activities of fee earners.

The fact is that just as clients are considered the firms' clients and not those of individual lawyers, outbound referrals should be considered assets of the firm and not of individuals. Knowing where inbound referrals come from allows firms to more effectively determine which firms to refer work to so that they can achieve more appropriate levels of reciprocity.

Furthermore, tracking referrals in a commercial and measured manner provides valuable data that can be used to evaluate firms' business development and marketing investments as well as ascertain how best to use these resources in the future.

What are the options?

Effective referral tracking requires a combination of factors including good IT systems and processes, which must be automated and integral parts of fee earners' day-to-day activities.

In general, a firm's approach to referral management usually ranges from high tech at one end to low tech and manual at the other. Lowtech approaches involve a designated central referral manager or partner whose job is to gather all inbound and outbound referrals from all the firm's lawyers, collate the data and then produce referral reports for internal discussion, analysis and action.

This approach to referral management involves a very high level of proactive, diligent and manual participation on the part of fee earners, which frankly is considered a divergence by lawyers from their core function. This results in lawyers failing to provide the information in a timely or accurate manner.

Some firms adopt a slightly more sophisticated approach. They acquire or even build specific referral management systems in-house, though building another silo of information is rarely a longterm solution to an activity that is more effectively managed centrally.

A better alternative has proved to be extending the functionality of customer relationship management (CRM) systems to store and track referral data. The advantage here is that a centralised repository of data makes it easy to analyse referral trends, direct referrals to firms considered to possess the appropriate talent and reputation as well as reward referral sources.

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This also enables firms to leverage information on clients already held within the CRM system, reduce time spent on re-entering information and minimise risks of error and duplication. One major international City law firm is using such an approach, allowing clients to access preferred third-party experts via extranets and capture information back into its CRM system.

Further, such an approach helps with relationship management for new business acquisition, too. Using a sophisticated CRM solution, a UK-based team at a leading private equity and venture capital firm uncovered a colleague working out of its Milan office who had a relationship with a new business target company's M&A director. By leveraging this connection, the equity firm secured the deal, expecting to subsequently garner profits in the range of \$25m-\$50m (£15.4m-£30.8m).

At the top end of the spectrum, firms use workflow-based solutions to automate the process and utilise data in a firm's time and billing, practice management or CRM systems as a means of collating referral management information. This approach is the most effective as it is embedded within the overall business processes of the firm. Such systems are designed to be easy for lawyers to use. One law firm has seen an increase of almost 50% in referrals captured since adopting this approach.

However, prior to selecting a solution, firms must identify the specific issues they face individually. Some firms may find that lawyers are unwilling to comply with referral management processes as they find them difficult to follow given their workloads. For example, lawyers may find it cumbersome and time consuming to enter referrals. Nonetheless, this issue can be overcome by incorporating the data capture mechanism into a process that the lawyers already engage in, such as client and matter inception.

Measuring success

Success can be measured strategically and tactically. Tactical success factors include evidence that all referrals are entered into the system and made available for searches and reports; that marketing teams and partners are able to easily access a list of referral sources; or that all matters generated by inbound referrals can be easily identified.

More significantly, strategic success happens when firms are able to compare and analyse inbound and outbound referrals and quantify the revenue generated by those actions. The metrics provided by a referral management system should help measure the degree of financial reciprocity between firms with relatively little effort.

Ultimately, it is these metrics that help establish an appreciation of the value of a referral network within firms and illustrate their ability to target outbound referrals to deliver the greatest return of inbound

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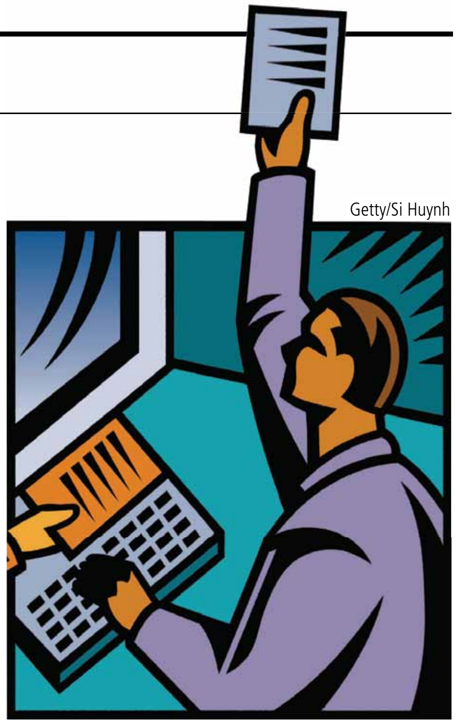

business. The results speak for themselves.

A major private equity firm used such an analysis to determine a preferred referral network and reap its business benefits. For instance, the firm was able to uncover previously unknown links with individuals and organisations, both internally and externally. Being part of the network also allowed it to specify the type of referrals it was interested in as a business and share intelligence.

Measuring success at this level further enables firms to assess the work types referred, their value and regularity, which in turn helps with future planning to support such referral arrangements.

Ultimately, there is no silver bullet or one-size-fits-all approach when it comes to referral management. However, the potential value of referral business in an increasingly competitive marketplace strongly suggests that firms must now start investing time and effort into defining their referral strategy at a corporate level followed by identifying the necessary systems to ensure that it is implemented, managed and measured firmwide.

Those that do not run the risk of losing significant revenue to those that already have referral management under control and delivering returns. The significant benefits of a well-defined referral management programme merit serious consideration.

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