

Business Intelligence: A Must-Have for Firms

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Law firms today are experiencing pressure to manage and grow business. As management grapples with how most effectively to address the challenge of improving bottom-line performance, administrators increasingly find a dearth of quality “intelligence” in the vast data stores found in most firms. Executive directors are being challenged as never before to provide much more than the routine financial reporting of the past.

Firms need tools that allow them to analyze scenarios and support critical business decisions, for existing financial management systems alone do not provide this type of information in any practical format. For management to realize the tangible value of the information contained in their data stores, it is essential that they have access to tools that provide for simple analysis and intuitive presentation of the data. That’s why business intelligence (BI) has become the latest “must-have” product for growth-oriented firms.

That Was Then . . .

How many times have you wanted to create a report from your financial management system only to bring it to an end because it would take too long or the information wasn’t

available in a usable format? This is a common problem typically experienced in firms because traditional systems (*i.e.*, time and billing) are built to be used as powerful transactional databases, not analysis tools. As a result of the millions of transactions in the system’s history, extracting data can be a very time-consuming process, not to mention that it often results in reams of flat sheet reporting instead of targeted analysis.

This Is Now . . .

Now you can tap into the wealth of information that resides in your database, with no custom programming, thanks to BI software. It proactively pulls information from your existing data, and then pushes it to end users in a practical format for analysis and use in supporting business decisions and strategy development.

The three major components of business intelligence software are data warehouse, user interface and the presentation layer (*i.e.*, information output).

Data Warehouse

The data warehouse is a database that’s separate from a transactional production system and designed specifically to provide fast analysis of interrelated “cube”-type information, such as information about clients, attorneys, billings, cash receipts and expenses, in the lowest form of detail. Since the data warehouse is built to store and retrieve information in these categories, reports can be generated in seconds.

Furthermore, the data warehouse can build data components into summary levels on the fly, enabling *ad hoc* analysis. A typical data warehouse also provides the ability to view data from a historic prospective, a snapshot in time. For example, the firm’s CFO is reviewing the historic aging information for the clients of one billing attorney and wants an exact copy of an aging report as it was on 12/31/03. Without a date-in-time snapshot, it’s nearly impossible to generate reports that reflect prior accounting periods. An aged A/R report run today for the period ending 12/31/03 will not look the same as the report that was actually generated on that date. The concept of aging receivables is standard in all systems — what isn’t standard is maintaining a true historic prospective of the information. In an attempt to circumvent this issue, some firms archive a static copy of all month-end reports for later reprint. Not only does this approach lack the flexibility for later analysis, but if a report wasn’t generated on the date in question, then it could never be recreated again.

User Interface

The user interface provides access to the data stored in the data warehouse and may contain several screens or options for customizing information retrieval according to both firm- and user-specific needs. The latest business intelligence products provide this user interface in a standard browser window, allowing the software to be used from any PC connected to a secured Internet or intranet connection. The analysis tools are built into this layer, such as the ability to select sets of clients, attorneys, date ranges and other reporting variables. The more “includes” and “excludes” the better.

Presentation Layer

The presentation layer enables the end user to select viewing and distribution methods for the information retrieved. Options may include report templates, graphs, exporting to secondary databases, digital scorecards, spreadsheets or Pivot Tables, all of which could be viewed on screen, printed, saved to an intranet portal or sent via e-mail. Business intelligence software is built not for the programmer but for the businessperson who needs information at his/her fingertips. It does not require custom programming, complex report writers or query tools. This ease-of-use allows end-users to access information themselves, thereby relieving IT professionals from having to develop new reports to suit various needs.

Practical Applications

The benefit of business intelligence software is that it enables firms to leverage the information automatically captured via daily transactions in a meaningful way. For example, business intelligence software can be used to evaluate the success of branch offices, as well as to compare actual numbers to budget numbers.

Here are two in-depth examples of how business intelligence software can be used to help firms better manage and grow their practices:

Measuring Profitability. A CFO can use business intelligence software to identify the areas of law that are most profitable to the firm, as well as the clients that drag down the firm’s profitability by:

Measuring billing realization by matter area of law on a quarter-by-quarter basis

Comparing that to cash receipts realization

Examining average rate by quarter for each area of law

Further examining each attorney and his or her average rate

Examining accounts receivable write-offs by area of law, then by clients

Making decisions about resource allocation as well as whether or not to adjust new matter intake rates for these clients

Measuring Productivity. A managing partner can use business intelligence software to identify attorneys who are not as profitable as the firm average and analyze the factors that contribute to that shortfall by:

Analyzing each attorney’s hours produced

Comparing those hours to others at the same level (e.g., partner, associate), as well as by practice area

Examining the average billing rate for those attorneys and their average accounts receivable write-offs

Working with attorneys who are falling below firm averages to identify and resolve any issues impeding productivity

BI: An Intelligent Choice

According to Mark D. Grant, CPA and president of his own financial system consulting firm, many firms are choosing to use data warehousing, rightly so. He says that an accounting system is designed to process transactions rapidly, whereas a data warehouse is designed for fast generation of reports. From a technical perspective, the two systems are tuned very differently to achieve maximum speed. By pulling the information into a data warehouse, firms can efficiently and effectively manipulate the data for further analysis as needed.

Once a BI system is in place, your firm’s financial history provides numerous benefits and strategic planning opportunities. The value of the information that resides in your financial system extends beyond billable hours, WIP and A/R — and today’s numbers don’t tell the full story. While isolated numbers are important, they are more meaningful when paired with information from prior months and years in order to identify trends and the direction your firm is heading in relation to those trends. For example, is your firm collecting slower than usual as evidenced by an increasing percentage in the over-90 day’s column? What are the reasons behind this trend? Could the billing rates be too high? Is the collections department understaffed? Is this a problem across all practice areas or just isolated to a particular billing attorney? Once you identify the trends and explore the “whys” behind the numbers, bringing about the changes necessary is a slam-dunk.