



5 best practices for  
improving collections

Why law firms should  
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How to raise rates, *carefully*

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Is your firm up to the challenge?

# LAW FIRM MANAGEMENT

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# 5 best practices for improving collections

It's as inevitable as taxes and death: Some of your clients will be slow to pay — and some may not pay at all. Unlike other businesses, which often stop providing goods and services until payment is received, attorneys generally can't withdraw representation while waiting for a client to remit an invoice. Fortunately, there are other simple and effective options for improving your collections and, in turn, your firm's cash flow.

## 1. BILL PROMPTLY

Probably the most important rule is to send your clients invoices on a regular and timely basis. The sooner you bill, the sooner you'll see the revenue. Clients tend to devalue services received as time goes by, so it pays to be prompt. As an added bonus, billing promptly subtly suggests to clients that you expect to be paid quickly. If you sit on your invoices, clients may infer that you're in no hurry to collect.

The definition of "prompt" will depend in part on the type of matter involved. For transactional matters, for example, bill at or before closing, as clients usually don't waste time before reinvesting

proceeds. For protracted litigation, bill monthly or even semimonthly (especially if you're fronting fees for third parties such as experts and litigation support).

*It may be uncomfortable, but there's simply no way around it: You must routinely follow up when invoices go unpaid.*

A necessary corollary to the maxim of billing promptly is that you also must capture time promptly. After all, you can't bill for time that hasn't yet been recorded. Attorneys should submit time records at least weekly — but preferably daily.

## 2. INVOICE SMARTLY

It's not enough for your invoices to be sent promptly; they also must be sent smartly. That means invoices must accurately describe the services rendered, in a manner easily understood by the recipients.

If an invoice isn't clear, it's likely to be set aside.

You should also ensure that every invoice makes the due date and amount due obvious. Smart invoices can cut the number of billing disputes, which almost always delay payment.

## 3. ESTABLISH WRITTEN POLICIES AND PROCEDURES

No matter its size, every law firm should have written policies and procedures



regarding billing and collection practices. These should include:

- A timeline that spells out when invoices are sent,
- When and how follow-up is conducted,
- The number of days past due that constitutes delinquency, and
- How delinquencies will be handled.

These policies and procedures must be followed consistently. Attorneys shouldn't have the authority to go outside the standard practices for favored clients. That's not to say attorneys shouldn't get involved in collecting from delinquent clients. But their collection role should be within the established firmwide parameters. A standard past due notice might be more effective, for example, if the billing attorney adds a handwritten note to it.

#### 4. FOLLOW UP

It may be uncomfortable, but there's simply no way around it: You must routinely follow up when invoices go unpaid. Again, you'll want to stick to a strict timetable.

For example, your firm might send a new statement as soon as the initial statement is more than 30 days out, with additional follow-ups at 60 and 90 days. Frequent communication with delinquent clients is a vital component of the collection process.

#### 5. AVOID DISCOUNTS FOR DELINQUENT CLIENTS

Attorneys can be tempted to offer discounts to delinquent clients just to get some money in the door on a relatively timely basis. Avoid this temptation. Even if it works and they remit part of their bill, providing discounts to late-paying clients only trains them to think that they'll be rewarded for dragging their feet.

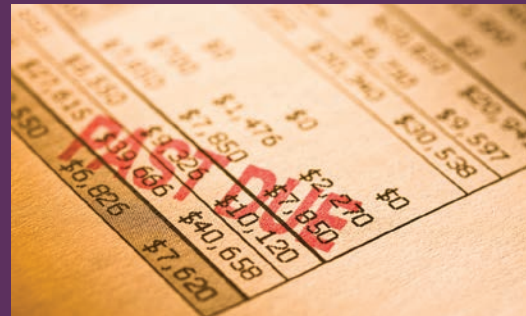
Clients who receive a discount after failing to pay for six months have little incentive to pay the next invoice on time. Rather, extend discounts only to clients who pay in full on time or, better yet, ahead of schedule.

## HOW TO PREVENT LATE PAYMENTS

When it comes to collections, sometimes the best offense is a good defense. This means trying to avoid circumstances that lead to late payments.

For example, your firm should do its best (to the extent that such efforts are reasonable and ethical, of course) to keep clients happy. Satisfied clients generally are more likely to pay their bills on time. To keep clients content, regularly update them on the status of their legal matters and assure them that progress is being made.

Also consider using data analytics to identify trends and patterns among your chronically late-paying clients. Data often can reveal red flags that indicate impending payment problems. Use such indicators to identify clients you should monitor and communicate with more frequently.



#### ACTION IS ESSENTIAL

Your firm can't afford to sit back and hope that clients will pay their invoices on time — you must be proactive. If your clients consistently pay late and your firm's cash flow is suffering, contact us. We can help you develop a more effective collection plan. •

# Why law firms should look to the cloud

Cloud computing isn't exactly new. It's been on the radar of efficiency- and cost-minded businesses of all sizes for some time. However, law firms have been slower to jump on board, largely because of privacy and security concerns. But several newer cloud computing options address these issues, and many firms are concluding that the benefits far outweigh the risks.

## PINNING IT DOWN

One reason for some attorneys' reluctance to adopt this technology is that they don't clearly understand what moving to the cloud means. Cloud computing, also known as "software as a service" (SaaS), involves using a network of remote third-party servers hosted online to store, manage and process data. Rather than relying on your own computers' hard drives or a local server, you share remote computer resources — including software and storage.

The technology basically does away with pricey contracts and per-user licensing fees. Cloud

customers usually pay a monthly subscription fee or are billed based on actual usage, and service providers roll out updates and patches on an ongoing basis at no additional charge.

## THE SUNNY SIDE

In addition to low upfront and ongoing costs, advantages of cloud computing include:

- Scalability, meaning you can scale up when you need more storage or data capacity and scale back when you need less,
- Built-in redundancy, which means that service providers have multiple servers and can back up data continuously,
- Fewer compatibility issues among hardware, software and operating systems, and
- The ability of attorneys and other users to access data and programs from anywhere, at any time.

In addition, because everything is done at offsite data centers, you never have to work around visiting technology consultants and their demands. You might even be able to reduce your own IT staff.

## POTENTIAL STORMS

The most significant prospective downsides relate to privacy and security. Due to ethical obligations, these areas merit your firm's close attention.

Your firm can't possibly have as much control over a cloud system as it would of its own infrastructure. However, cloud computing features — such as firewalls, tight authorization restrictions, and encryption and filters to protect your sensitive data — can provide valuable peace of mind. Many providers have more robust security than a single law firm could ever afford to put in place. What's more, cloud services typically offer disaster recovery and business continuity capabilities.



Due diligence will help ensure that your vendor is providing the most up-to-date features and newest defenses against threats. When you sign a service contract with a provider, make sure you address privacy and security issues. This includes compliance with all applicable legal standards and security protocols and indemnity and liability provisions.

One other detail: Check with your state's bar association to see if it has issued an opinion regarding the use of cloud computing by attorneys. According to the American Bar Association, every state that has issued such an opinion

permits cloud use, but some have specific requirements your firm may need to satisfy.

### SKY'S THE LIMIT

Cloud computing sounds like it offers the moon and stars, but your firm must exercise caution before adopting it. Thoroughly research service options, review any service agreement closely and take the steps necessary to comply with applicable state bar ethics opinions. Finally, be prepared to handle client inquiries about how your use of cloud computing will affect them and the confidentiality of their files. •

## FOCUS ON PROFITABILITY

# How to raise rates, *carefully*

Since the end of the recession, many law firms have welcomed increased business, including work for new clients. This sounds like the perfect environment in which to raise the rates you froze — or even reduced — when the economy was weak. On the other hand, the legal marketplace remains competitive and raising your rates may just provide clients with an incentive to shop around for lower-cost legal representation. Fortunately, this dilemma can be resolved if you focus on quality.

### CONSIDERING COSTS

The rates you charge may be affected by many factors, including associates' salaries, overhead costs, your local market and your firm's reputation. Most firms use formulas, tying billing rates to salaries and projected billable hours, for example.

If it's been a few years since you've adjusted rates or if your profit margin is shrinking, potentially putting your firm's future in jeopardy, start thinking



about a rate increase. Keep in mind that smaller increases are easier for clients to swallow. Most won't blink at a 2% to 5% rise, even if you increase rates by that amount several years in a row.

But a higher rate hike can cause even good clients to start comparison shopping, so handle such policy changes with delicacy. Your managing partner should send a letter to all clients providing a detailed explanation for the increase, and billing partners should follow up by personally

## EASY AS A, B, C

Every firm has clients that can be categorized into three broad categories — A, B and C. “A” clients are those you love working with and who pay their bills on time, listen to your advice and don’t complain about reasonable fee hikes. These gems typically make up about 20% of a firm’s current client base.

“B” clients share many qualities of the “A” group, but they usually fall short in several respects or are too small to have much impact on your firm. This group represents about 60% of most client bases.

“C” clients usually compose 20% of your client list, but cause most of your malpractice suits, collection problems and headaches. For a more profitable practice, concentrate on expanding your “A” list by converting “Bs” to “As” and getting rid of “C” clients.

calling clients to address their concerns and questions.

### LEGITIMATE CONCERNS

For many firms, the fear of alienating clients outweighs any potential benefits of raising rates. This is a legitimate concern. Depending on the market and your competitors, you’ll probably lose at least a few clients if you raise rates. However, that’s not necessarily a bad thing.

*Most clients won’t blink at a 2% to 5% rise, even if you increase rates by that amount several years in a row.*

The clients most sensitive to rate increases are likely your “C” clients — those that continually complain about fees, are slow in paying or even require collection efforts. (See “Easy as A, B, C” above.) Because these clients demand a disproportionate amount of time and attention, your firm may benefit by showing them the door. Attorneys will be able to spend more hours on those clients that value your services.

### MARKET RATES MATTER

National and individual metropolitan market billing surveys can give you an idea of what other firms are charging. You can also get a handle on current market rates by talking to attorney friends at other firms who may be willing to share their rates.

One way to test the market viability of your new billing rate structure is to present it to potential new clients. If they accept your rate structure without question, you may be charging too little. On the other hand, if potential clients balk at your rates, you may have overestimated the market.

Once you’ve determined that the proposed new rates are competitive, you can strategize how to present them to existing clients. Keep in mind that there’s nothing wrong with being the market leader so long as this premium is supported by your reputation and the quality of the firm’s work product.

### BE CAREFUL WITH YOUR MESSAGE

Raising rates is a tricky business. But if your profit margin is narrowing, you must consider it. Even if your firm is in good financial health, below-market rates send a poor message to potential clients: For example, “We’re cheap, so don’t expect much.” Instead, communicate the quality you offer and price your services accordingly. •

# Procurement comes to legal services

## IS YOUR FIRM UP TO THE CHALLENGE?

Corporate clients have long used procurement departments or employees to get the best deals on raw material, production items and services such as maintenance and repairs. In recent years, companies have started using procurement to purchase legal services, too. Research by the Buying Legal Council, an organization that supports legal procurement professionals, suggests that this area is likely to expand in coming years.

### CLIENT MOTIVATIONS

According to the Council, the financial crisis and slow economic recovery catalyzed and expedited the process for many Fortune 500 companies to adopt legal procurement. More than ever, corporations are feeling pressure to be profitable — which means keeping legal costs under control. Negative publicity about law firm billing practices and big ticket spending, as well as corporations' concerns about satisfying calls for transparency, have also encouraged the rise of legal procurement.

As a result, more companies, particularly those with significant legal budgets and in regulated industries, are involving procurement when selecting outside counsel and ancillary legal services. In addition to lower costs, these clients want high quality and improved efficiency.

### SIGNIFICANT FINDS

In January 2016, the Council surveyed 92 legal procurement and legal operations professionals, uncovering several interesting developments. It found, for example, that:

**Buyers have the upper hand.** Corporate clients are flexing their muscles and using tough negotiators: procurement professionals who are experienced in obtaining value.



**The “good old boys” network is gone.** A growing percentage of companies' legal budgets are under the institutionalized management of procurement — which means your attorneys shouldn't expect to land new business on the golf course. Vendors, even legal services vendors, are selected because they'll deliver what's needed for the right price.

**Almost no one pays sticker price anymore.** Clients expect discounts of 10% to 20%.

**Procurement professionals work hand-in-hand with legal departments.** Although procurement may control the selection process and flow of information — and influence the choice of law firms — corporate legal departments play critical advisory roles. Of the outside firms engaged, 87% reported that they were short-listed for consideration by the company's general counsel. In general, procurement doesn't make final hiring decisions.

### NEW NORMAL

Because the survey's sample size was small, its findings shouldn't be considered definitive. However, they suggest that procurement's involvement in purchasing legal services is growing and will continue to do so. If your firm hasn't already developed strategies for working with procurement professionals, you need to start thinking about how you'll attract and maintain relationships with these corporate gatekeepers. •



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