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LAW FIRM MANAGEMENT

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5 tips for managing and improving your firm's cash flow

While many law firms focus on profitability, some firms can overlook the critical role that cash flow plays in both day-to-day operations and long-term sustainability. After all, law firms can't generate revenue if they don't have sufficient cash to keep the doors open. The following practices can help position your firm for success and growth.

1. PLAN PROPERLY

Effective cash flow management begins with detailed budgeting. Include expenses for photocopying, postage and delivery fees, office supplies and similar items. By detailing them, you can give firm management a better picture of how such costs affect cash flow.

Prepare monthly, quarterly and annual cash flow projections. Forecasting can make it easier to identify and plan for slow periods and other trends.

2. BILL ACCURATELY, CLEARLY AND TIMELY

Billing is one of the cornerstones of cash flow. It probably goes without saying that accurate billing is essential because disputed charges often delay payment.

To increase the odds of on-time payment, ensure that your invoices describe the services rendered in a manner easily understood by clients. If invoices aren't clear, clients may become frustrated and set the bills aside. Highlight the due date and amount due on every invoice, too.

The sooner you bill, the sooner the revenue will roll in. Clients often devalue services received as time passes, so send bills electronically shortly after services are rendered. Prompt billing implicitly suggests to clients that you expect to be paid promptly.

3. REASSESS YOUR HANDLING OF CLIENT EXPENSES

Many firms initially cover substantial portions of their clients' expenses out of their own pockets, leading to the possibility of clients failing to reimburse for these items. If clients don't pay for their actual costs, overhead can explode and drain a firm's own coffers.

Account for overhead and other expenses in your billing. To avoid making clients feel like they're being nickel-and-dimed, incorporate charges for items like postage and copies into your hourly rate.

4. TAKE STEPS TO ENCOURAGE TIMELY PAYMENT

Help them help you, as the saying goes. For example, encourage your clients to set up automatic payments by credit card.

You also might consider offering clients discounts for early payment. Don't go overboard with discounts,

GET THE PARTNERS INVOLVED

It's not enough for partners to accurately track their own time; they also must do their part to prompt clients to pay in a timely manner. To help them do so, provide them regular reports on outstanding invoices and collection efforts, as well as unbilled fees.

Seek the partners' input on the best time to convert their clients' billings into realized fees — that is, when the clients are at peak satisfaction. Your partners should be expected to alert the billing staff when, for example, they or their associates have finished drafting a complicated contract or secured an important win in litigation, whether on a motion or the ultimate verdict. Clients are more likely to quickly pay their bills in the wake of positive outcomes.

As for unbilled fees, set a threshold. When unbilled fees exceed the threshold, it's time for the involved partner to intervene, whether by urging the billing attorney to address the situation or reaching out to the client directly.

though. Make them available only to those clients who pay early or at least on time. Once clients are delinquent, discounting their bills will only incentivize them to continue to drag their feet on their invoices.

5. DEVELOP A FORMAL COLLECTION PLAN

Regardless of firm size, collections should never be handled on an ad hoc basis. Have a formal plan that lays out the steps you'll pursue when clients miss their payment deadlines. The plan should address:

- When and how follow-up is performed,
- The number of days past due that's deemed delinquency, and
- How delinquencies will be addressed.

For example, the plan could dictate that you'll send a new statement as soon as the initial statement is more than 30 days outstanding. Additional follow-ups will go out at 60 and 90 days, perhaps with a handwritten note from the handling attorney. Frequent communication with delinquent clients is a crucial component in the collection process — and you can automate this communication to make it easier to manage and consistent across all clients.

Have a formal collection plan that lays out the steps you'll pursue when clients miss their payment deadlines.

Consider imposing late fees at a certain point. If you opt to go this route, though, warn clients upfront of the possibility of such fees to avoid disgruntled feelings.

STAY ON IT

Effective cash flow management is an ongoing process. Regularly scrutinize your cash flow statements to identify trends and key performance indicators for cash flow (for example, average days outstanding in accounts receivable), and adjust your practices as needed. •

How much capital is enough?

HOW TO ASSESS YOUR FIRM'S NEED FOR CAPITAL

Does your firm have a sufficient amount of capital to support its daily operations? Do you know how to determine how much is enough? To offset gaps in cash flow due to expenses, law firm billing and collections, law firms may require larger partner capital contributions. Having a capital plan in place will help with the uncertainty and provide partners and other stakeholders with a sense of stability.

WHAT ARE YOUR EXPENSES?

All firms face financial pressure. For example, your firm may have to provide client cost advances during lengthy litigation. And while the economy is holding steady for now, it's not unusual for clients to drag their feet when settling bills. Regardless, outside vendors expect prompt payment. Your firm might not have invoiced a client before vendors demand payment.

When you've settled on the appropriate capital level, decide on the proper breakdown between partner contributions and lines of credit.

In addition, growing firms must hire new associates and lateral hires. Even lateral hires who bring clients with them usually receive several paychecks and incur overhead costs before those clients start generating — and paying — additional revenues. Partners also are expensive: As more Baby Boomers approach retirement age, some firms have more partners leaving to retire than young partners buying in.

Finally, today's attorneys expect to work with sophisticated hardware and software, and clients

expect their attorneys to leverage technology to provide efficient, cost-effective services. Keeping up with rapidly changing technology — and technologically up-to-date competitors — can be expensive.

DO YOU HAVE A PLAN?

All of these issues can be alleviated with adequate capital reserves. If revenues fall short, your firm can tap its capital to bridge the gaps. Having a capital plan can be helpful in these situations.

Your plan should address the firm's capital needs for the next three to five years. To quantify those needs, consider your average revenue cycle, any anticipated capital investments (for example, technology or physical space), operating expenses, estimated client disbursements and perhaps partner draws (although it's usually best to defer draws rather than paying them out of capital). If applicable, your firm should take into account any payment obligations to retired partners.

WHAT ARE SOME OPTIONS?

Once you've calculated your capital needs, you have four basic options for determining the specific amount of capital your firm needs to keep on hand. You might base capital needs on one or more of the following:

Monthly expenses (not including partner draws). If your firm has a strong cash flow (meaning prompt collections), you might set capital at one to two months. If you have a slower turnaround, you may need to use three to six months as the measure.

Fixed percentage of gross fee collections. When setting the percentage, assess the timeliness of your collections and plans regarding hiring and space. Most firms set the percentage close to 10%.

Long-term debt. Putting aside capital equal to half of your firm's long-term debt provides lenders with some comfort. Ever since the 2008 recession, lenders have been less accommodating about extending credit to law firms than they were in the past.

Net fixed assets. This method assumes that your firm has secured outside loans to finance fixed assets, and that your partners will fund working capital in an equal amount.

When you've settled on the appropriate capital level, decide on the proper breakdown between partner contributions and lines of credit. This decision should take into account your firm's — and individual partners' — tolerance for debt. The higher the debt tolerance, the greater you can rely on credit lines over contributions, and vice versa. Note that your partners should also consider potential personal liability associated with lines of credit. Credit lines typically are subject to joint and several liability, putting all of your firm's partners at risk of liability for the entire amount owed in the event of default.

REGULARLY UPDATE

And remember, reviewing your capital plan isn't a one and done. Be sure to review your firm's capital plan regularly — at least annually — to keep pace with your firm's strategic and financial needs. Make adjustments if needed and communicate any updates to your firm's partners and other stakeholders. •

Going green can pay off for law firms

Adopting green practices is no longer just about protecting the environment — both clients and job candidates increasingly are considering law firms' sustainability efforts these days. By focusing on areas such as paper use, energy conservation, smart design and procurement, you make your firm more appealing to these potential stakeholders.

PARING BACK ON PAPER

Law firms are infamous for gobbling up massive amounts of paper. But this habit may be easily contained. For example, you can shrink the margin size on your document templates or implement double-sided printing and copying to get more from less.

Better yet, firms of all sizes are now moving closer and closer to paperless operations, taking advantage of e-filing, e-discovery and e-billing. This continued shift to digital saves not only paper and trees but also the need for off-site storage — and, with it, the need for drives to the storage location that also waste employee time.

EASING UP ON ENERGY USE

Energy consumption is another obvious area where law firms can significantly improve, while simultaneously reaping impressive cost savings.

For example, motion sensors and timers can ensure lights are on only when needed. Smart thermostats can manage heating and air conditioning more efficiently.

Physical computer servers eat up a lot of energy (and space), too, prompting some firms to switch to virtual servers. These virtual servers can "host" several users' operating systems on the same physical hardware. But the hardware typically is located offsite and accessed through the cloud.

DESIGNING DELIBERATELY

Design plays a major role in a law firm's energy consumption. Firms launching new construction projects should seek LEED certification, whether for construction of the entire building or only for certain spaces, such as server rooms.

On a smaller scale, office layouts should be sensitive to, for example, maximizing the use of natural light. Law firm offices also can incorporate energy-efficient lighting, sustainable ceiling and carpet products, low-flow plumbing and climate-friendly landscaping.

PURCHASING PRUDENTLY

To achieve true sustainability, consider looking beyond your own firm. You inadvertently could offset your positive environmental impact by financially supporting other businesses that engage in environmentally unfriendly practices. You can reduce this procurement risk in two ways.

First, search out vendors who offer sustainable goods and services. You might be surprised at the breadth of businesses that now have greener versions of traditional offerings. You can purchase energy-efficient appliances, computers, printers and copiers; office supplies and furniture made with recycled materials; and coffee and vending machine selections that minimize eco-averse packaging.

Second, even vendors of products and services not susceptible to green improvements can pursue sustainable practices in *how* they conduct business. Do they recycle? Do they use hybrid or electric vehicles? Have they taken measures to reduce their shipping impact (for example, buying carbon credits or using less, or less harmful, packing materials)? All of these matters can be explored through the request for proposal (RFP) process.

> *Firms of all sizes are now moving closer and closer to paperless operations, taking advantage of e-filing, e-discovery and e-billing.*

GETTING STARTED

The areas discussed above represent a small sample of those where law firms can take concrete steps to become more environmentally responsible. With so many potential targets, though, achieving sustainability can seem overwhelming. A self-assessment will help you get some quick wins under your belt by determining the areas where you can have the biggest effect in the shortest time and work from there. Going forward, develop metrics that reflect your green goals and monitor them regularly. •

Client surveys: Ask not what your clients can do for you …

With 2020 slowly dawning on the horizon, law firms should think now about sending year-end surveys to their clients. Done right, surveys provide a great tool for getting a read on clients' satisfaction levels, as well as increasing firms' books of business. As always, it's easier and less expensive to obtain new work from current clients than land new clients.

THE ESSENTIAL INFORMATION

You can use client surveys to gather critical information on a variety of areas, including satisfaction with, among other things:

- The individuals involved in serving them,
- Responsiveness and timeliness,
- Outcomes,
- Value, and
- Any other law firms they use.

You also want to know whether they would use the firm again and refer others to the firm. Questions can solicit clients' opinions on the most important factors when selecting a firm and your brand identity. You can send clients a clear message that you care about not just retaining but also strengthening your relationships with them by specifically asking about areas where you could improve.

Always inquire about clients' needs for additional services, too. Perhaps the best way to do this is to provide a checklist with all of the services you offer, along with blank space for clients to add services not included. Simply providing a list of all of your services — in the guise of a "services needed" or "services would consider using" question — to clients can serve a cross-selling purpose, alerting them to offerings they may not have been aware of yet.

And when clients use the blank spaces, you'll gain information that could drive your future strategic or business development plans. If enough clients add a practice area or service you don't currently offer, for example, you might want to explore adding it to your repertoire.

SURVEY METHODS

The word "survey" may bring to mind a paper or online form with check boxes and perhaps some open-ended questions, but you're not limited to that mode. In fact, personal interviews with a random selection of clients can present a valuable opportunity to both gather information and immediately follow up with more probing questions.

Focus groups and client panels also provide chances to collect information in face-to-face settings. However, the results from these methods are less quantifiable, or statistically significant, than written surveys — and attorneys can sometimes be more receptive to hard data than subjective feedback.

PUT IT TO WORK

If you're not going to act on the survey results, you could even do more harm if clients feel you've ignored their concerns. To avoid this risk, use the results to set specific action items, and follow up in three to six months to check your progress. •

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