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Don't Be a Bank
Be Aware When You Float Loans to Your Clients

By Daniel Zimmerman

Attorneys have historically viewed themselves as professionals by providing a high level of services to their clients. While this is true, many also act as their clients' bankers.

Bankers? Attorneys are in the business of providing legal services. But once the attorney commences a matter from the first hour invested, he begins "loaning" the client the firm's money.

This role requires the attorneys and firm management to adopt a more businesslike approach to running the law firm.

Client Intake: Develop or obtain a client information sheet for prospective clients. This should show all the key players in the organization including titles, phone numbers, addresses and related entities. Ask about your clients' previous attorneys and why they are moving their legal business to you: You may be the next firm they plan not to pay.

Engagement Letters: Encourage attorneys to consistently utilize engagement letters. Make sure clients sign and return these letters.

Communicate with Clients: Attorneys can profoundly impact cash flow by being more up front with new clients regarding the firm's expectations. Ask for client commitment to pay according to your terms. This puts clients on notice that you expect to be paid on a timely basis. Should you utilize a retainer, make sure you have a mechanism in place to issue an edit report when your combined accounts receivable and WIP equal 75 percent of your retainer.

Timekeeping _Another way to enhance firm cash flow is through the adoption of more rigorous timekeeping procedures. There are two important actions involving this part of the process:

Make sure all billable-hour employees turn in time sheets daily. If the firm's partners and staff try to reconstruct their time weekly, they can lose a half hour here and there.

Encourage all lawyers to record adequate detail so invoices can be substantiated.

Work in Process _Law Firms tend to experience substantially more investment with work in process and accounts receivable than they seem to realize. The degree of investment varies, but it is not unusual for firms to have 30 percent or more of their total receivables over 120 days. All possible time in WIP should be billed out on a monthly basis. This helps the firm's cash flow and breaks its clients' billings into smaller increments that are easier to pay.

<u>Billing Cycle</u> The key to the billing cycle is to standardize as much of the process as possible. The less time partners spend on billing procedures, the more smoothly and efficiently the process works. The result is enhanced cash flow.

<u>Collections</u> There is an inherent conflict when firms make partners responsible for their collections. The partners tend to have a problem taking time to work on collections. When they do, they tend to be relatively ineffective because they talk about various topics, and the request for payment is substantially down played.

Another typical scenario is when the firm administrator is charged with the firm's collections. This may not also be successful: _ The firm administrator already has multiple responsibilities to manage._ The firm administrator usually has not received professional training in collections._ The partners do not let the administrator work on the larger accounts, thus leaving only the smaller accounts for proper collection procedures. _ If a client calls in after the administrator has spoken with the client, the partner will often be almost apologetic about the call having been made.

With the acceptable high levels of WIP and receivables in the legal industry, firms feel they are doing well by industry standards when in reality they can easily be much better than these established benchmarks. The areas outlined above will lead to enhanced profitability and partner distributions.