

**Practice Management**  
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**Six Easy Pieces**  
**Take These Steps to Improve Your Firm's Cash Flow**  
By Daniel Zimmerman

*Legal administrators realize that proper management of a law firm's revenue cycle can dramatically improve cash flow. Adopting these six basic principles is something any firm can easily do to improve cash flow while enhancing the law firm/client relationship.*

Let's start at the beginning.

**Client Intake** When a firm looks for long-term solutions to improving cash flow, it needs to focus its efforts on the intake cycle. Firms talk much more about evaluating new clients and checking credit than they actually do it. Our experience tells us many attorneys feel it is somehow "unprofessional" for the firm to request information from unknown prospective clients. Unfortunately, these attorneys are the only ones dealing with these clients that have this attitude. Everyone else a client deals with requires credit information and a clear understanding of the client's ability and intention to pay for goods and services. We recommend partners view themselves as bankers, because unless the client is on a replenishable retainer, you are in fact making an unsecured loan to each new client.

Develop or obtain a client information sheet for prospective clients. This should list all the key players in the organization including titles, phone number, 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 intend not to pay.

**Engagement Letters** Encourage your attorneys to use engagement letters \_ and make sure clients sign and return these documents.

Attorneys can make a profound long-term impact on cash flow by being more up front with new clients regarding the firm's expectations. An engagement letter should define the costs and scope of the firm's services as well as the billing and payment practices. Receive a commitment from the client that the payment terms are acceptable. This puts the client on notice that you expect to be paid on a timely basis.

Should you utilize a retainer, ensure it lets you issue an edit report when your combined accounts receivable and WIP equal 75 percent of your retainer. This allows time to issue a new retainer billing and replenish the balance. Once the client gets ahead on retainer, the firm seldom recovers the advance position it once enjoyed. A better method is to issue regular invoices, never charging fees against the retainer unless the client does not pay the invoice. This way you can then apply the retainer to the last invoice or refund it after the matter is closed, having never risked the client not paying the firm. This is sometimes referred to as the "evergreen" method.

**Timekeeping** Another way to enhance firm cash flow is through the adoption of more rigorous timekeeping procedures. There are two most important actions to take: Make sure everyone turns in timesheets daily. If the firm's partners and staff members try to reconstruct their time weekly, they can lose a half hour here and there. A few hours "here and there" add up to big dollars when multiplied by the total number of individuals billing. Consider what this adds up to on an annual basis.

Make sure lawyers take time to record adequate detail so invoices are substantiated. An entry of "reviewed file" at one-half hour showing up three times on a bill may make the client feel the lawyer is just filling in his or her billable time. Be sure invoices are itemized properly.

**Work in Process** Too many partners perceive that the cash flow process is over when the timesheet is completed and goes into work in process. Often firms have tight cash flow because of inadequate or nonexistent internal controls and procedures.

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. Work in process often exceeds 40-60 days of the firm's activity as well.

All possible time in WIP should be billed out on a monthly basis. This helps the firm's cash flow and breaks its client's billings into smaller increments that are easier to pay.

**Billing Cycle** The key to the billing cycle is to standardize as much of the process as possible. The less time partners have to spend on billing procedures, the more smoothly and efficiently the process works. The results are enhanced cash flow.

Also consider your invoice format. Does it look too much like a letter? Your firm's invoice should contain the following critical information:

an invoice number; "invoice" printed prominently; and a "due date" shown on the invoice (consider having the due date 10 days beyond the date shown).

Many firms have found that including this information will automatically improve their cash flow. This format reinforces your desire to be paid on receipt and gives the client's payable clerk all the needed information to set up your invoice for payment without making subjective decisions regarding when payment is due.

Should disputes arise later, good documentation through the timekeeping/WIP/billing cycle will serve to support your firm's position and actions, thereby reducing risk potential.

**Collections** 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 with the client, and the request for payment is substantially downplayed. Partners' best serve the firm by billing the clients and then delegating

**collections to a trained professional.**

**Another typical scenario is when the firm administrator is charged with the firm's collections. This also may not be successful for many reasons: The firm administrator already has multiple responsibilities to manage. Effectively managing the receivables can often be a full-time position by itself. The firm administrator usually has not received professional training in collections. Partners seem to think that a good administrator can magically assume this technical function. (Some partners feel they can assign any handy clerk to this function. Those who do this do not understand the dynamics of collecting the receivables, and they run a high risk of client alienation or worse.)**

**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. If the partner takes any position other than backing up his employee's efforts, then he has undermined the firm's efforts and has made it impossible for the administrator to be successful.**

**The acceptable levels of WIP and receivables are so high in the legal industry that 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. All too often, changing the way partners think and do business is the key to increased cash flow \_ and you can take that to the bank.**