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The ABC's of Effective Cash Flow

By Jerimie Ike

In my career to date, I have held the profit and loss responsibility for a variety of businesses spanning several industries, and there is one inescapable fact that is the basis for a financially sound organization; *cash is king*. Many law businesses operate on a cash basis accounting and live and die by what a client pays- not what is billed. For those on an accrual basis, a lofty AR balance may look good on a P&L statement for a short period, but we all know that cash is what pays the bills and there is no future for your professional service business without adequate cash flow.

The goal of this article is to take something that we can make so amazingly complicated and simplify it into a few key points. I am calling it the ABC's of Effective Cash Flow.

Always start with a quality client engagement letter. What does this have to do with quality cash flow? I will tell you. As a provider of legal billing services, we are asked often what our approach is to managing the accounts receivable (AR) issues attorneys might experience. We simply respond that our solution is to eliminate AR wherever possible. Even with the best of efforts that is not entirely possible, so to limit AR requires you start at the beginning, so that the expectations between you and the client are clear from the start. The fact is there is no magic solution for what becomes an AR balance at the end of a client engagement. Your choices are to work with them and wait, write the bill down or off entirely or perhaps sue them; none of which are appealing to anyone and do nothing to expedite cash flow. If you are lucky, they will pay. If you are even luckier, they will pay quickly and in full. The reality is (and studies have shown) that many law professionals do not collect one hundred percent of what they bill. So putting this in perspective, *you are only really worth what you are paid*.

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In a 2010 ProLegal survey of individuals that hired attorneys for business and personal purposes, 49 percent of those surveyed felt the bill for the legal services was higher than anticipated. Of the clients that did not pay as timely as requested, or paid less than the full bill, most indicated the reason for the holdup was that they simply did not understand the legal processes to manage their matter, or the pricing expectations behind it and were surprised by the bill. This led to considerable delays and resulted often in lower payments to the attorney.

Logically, most individuals request an estimate of what it may cost them for any service they secure, right down to choosing a cable or telephone company. Your clients are no different. Conversely, it is good to remember that it is far cheaper for you as an attorney to turn down a matter than to perform work against it and not be compensated, especially where out of pocket costs are associated. How can you mitigate those surprises to your own clients? We suggest you start with a quality engagement letter contains the following information:

1. If you are not billing on a flat fee, include hourly pricing and estimates for you and others that may support the matter. Clients understanding how you leverage your peers, especially those that charge less, will appreciate your desire to work in a cost effective manner.
2. Explain to the best of your ability the anticipated timing and how the matter is handled.
3. Identify the expectations of your client to pay and the consequences of delayed or no payment.
4. Discuss the frequency and how you will communicate with your client.
5. Explain the need for retainers when used. Retainers are a law business necessity which can alleviate the payment risks to the attorney and often help qualify the ability of the client to pay. Those that cannot pay a retainer may similarly be unable to afford the legal services in general.

Bill as often as you can. You cannot achieve quality cash flow without sending a bill as often as your client will allow. Your ability to be flexible, and bill more than once per month to cost and budget conscious clients, can be key, especially given the fact that the more frequent you are able to bill, the smaller the bill values appear. You will notice considerably more anxiety, for an already anxious client who receives a bill well after expected and with a resulting higher fee owed. Ask your client what frequency of billing they can handle based on the matter and be sure you have the systems in place to accommodate.

Accept all forms of payment: credit cards, debit cards, cash and checks. There are many suitable credit card processing systems available today that can meet the needs of large and small/solo law groups alike. Fees and processes vary with these programs, so you must review the offerings before selecting a processing agency that works for you. Additionally, now more than ever, clients are requesting their bills be e-mailed, which they will then pay quickly via credit or debit card. In the time it takes to mail and receive a bill the client has now received, reviewed and paid the bill. Cash flow is expedited and with substantially less cost (postage, paper and administrative handling of the invoice) to the lawyer/firm. Even if the client pays by check, you save valuable time and postage by emailing them the invoice. With the growing email deliverability options, chances are your emailed bill reaches your client wherever they are

for immediate consideration, without relying on an increasingly antiquated postal mail delivery system.

In an effort to better manage their accounts payable, more and more business clients are requesting that their invoices be received electronically. Legal Electronic Data Exchange Standard (LEDES) is the format that many require. With many of these processes, attention to detail on the front end is critical to avoid costly delays in payments or reductions. If managed correctly, you will have the ability to track the payment process and often receive payment very quickly. Choosing a billing system which can easily export your billing detail to these formats will be very important as time goes on.

I have often seen bills paid within 24-48 hours of receipt because a client receives their bill electronically.

Regardless of the promptness through which you can send a bill and the deliverability options available, do what you can to establish and stick to a minimum billing frequency of monthly where the matter allows, even if it is just for out of pocket costs in a contingency or transactional case. Bills that go out regularly to clients who understand through your engagement agreement the risks of payment delays, will undoubtedly have a better chance of prompt payment in full.

Call us for a professional evaluation of your billing processes. You don't have to be part of our Law Offices at 61 Commerce program to benefit from our billing services. What follows is why you should consider this. In conjunction with providing quality legal guidance and service to your clients, managing your revenue cycle is the most critical aspect of your business. We help firms and sole practitioners increase their bottom line profitability and we possess years of collective business acumen to do this. While you are a producer in the financial food chain, the process and people in your organization that manage your billing are consumers. Because of this, a focus on low cost and efficiency is critical to your profits. Our approach to creating efficiency within the revenue cycle is as follows:

Firms: we review your current program to make certain the workflow needs of your attorneys are identified and merged with an efficient billing process. While you as an attorney must commit to supporting whatever billing process is put in place today or in the future, as the single source of revenue for your law business, developing a billing program that both suits the needs of your business and clients and fits your work style is critical. We also have the resources to administrate this function for an affordable monthly fee allowing you an expense you can budget and a team of sustainable and efficient professionals working within a specific process developed for YOU and based on YOUR unique needs.

Solos: Are you managing these functions on your own currently? Have you ever had your administrator handling this function quit, leaving you without a replacement and the need to find and train another individual? Both of these scenarios are real and lead to a headache you don't need and a potential cash flow crisis. If you administrate the billing of your clients personally, chances are you are using up valuable time (which is your commodity) that could be creating



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Jerimie has 15 years of leadership experience to accompany his degree in Business Management. He delivers expertise in developing, implementing and managing proven systems. He has led teams at many levels to include large geographies and personnel in excess of 250 individuals. His skill sets make him very versatile in understanding the business principles and organizational structure needed to operate in a professional environment. Jerimie is a member of the American Bar Association's Practice Management and General Practice/Small Firm sections.

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revenue, or supporting quality work/life balance. Saving you 3-4 hours per month of quality time you can reinvest back into your client activity will pay for the service and help guarantee a premium focus on quality cash flow for your business. Connect with us on our web www.lawofficesat61commerce.com/services to find out more and attend the below, free lunch & learn event on May 4.

FREE LUNCH & LEARN

Review the results of a survey we conducted revealing how client perceptions can drive your marketing, client service and billing practices.

What Are Your Client's Saying?

Wed. May 4, 2011 12:00PM to 1:00PM

The Law Offices at 61 Commerce
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