
Top Cash Flow Management Strategies

White Paper by CosmoLex Cloud, LLC

Your firm has a roster of dozens of clients. You pack your week with billable hours. You have all the work you can possibly handle. And you can't pay your bills. Why? Because you don't have cash. One of the key elements to running a successful law practice is understanding that a healthy cash flow means a healthy business. We've worked with thousands of law firms over the last eight years, learning their best practices so we could develop the practice management software they needed. I want to share important strategies I've seen help law practices keep the cash flowing.

What Is (And Is Not) Cash?

Even experienced business owners can get confused about what "cash" is. You might have done a million dollars of business last year, but that doesn't mean you have a million dollars in the bank. A million dollars in unpaid invoices may be a positive asset on your balance sheet, but it doesn't pay your office lease. A million dollars in unbilled invoices are worth even less than that because your clients certainly aren't going to pay invoices they haven't received.

If the money isn't in your operating account, ready to be used anyway you like, then it's not cash. It may be an asset, it may have a value, but it's not liquid. Many high net worth businesses declare bankruptcy because their money is tied up in inventory or real estate or accounts receivable, and they don't have the cash to pay off their creditors.

Cash does more than pay your bills. It gives you the flexibility to plan for the future, to react to changes in the industry, and to build a stronger practice. A healthy cash flow in your law firm is a powerful competitive advantage over other law firms. [Small business attorney Suzanne Meehle](#) says, "You have to know what your cash flow is, every single day, or you could lose your firm."

Here are the best methods we've seen successful law firms use to take control of and improve cash flow.

Know Your Finances

If you have hypertension, you take your blood pressure every day. If you have diabetes, you check your blood sugar. These are important indicators that help you judge your current state of health. To judge the financial health of your practice you look at your balances. How quickly could you find out your operating account, trust account, unpaid invoice and unbilled invoice balances? More importantly, how long has it been since you looked at those key figures?

Check those balances every day to give yourself a quick picture of your firm's finances. If something looks out of whack, then investigate and take action. Unpaid invoice balance getting high? You need to get more aggressive about collecting on aging accounts. Trust account balance falling? It's time to send out retainer replenishment requests. You can't take action until you can spot the problems. Ideally you want all key indicators on a single dashboard screen so you don't have to hunt all over.

Evergreen Retainers

People don't like paying their attorneys, especially if the case is decided unfavorably. However non-payment is not a valid reason to drop a client in an ongoing matter. This is why attorneys typically collect an evergreen retainer, also known as a security retainer. The client provides the money up front so the law firm can take payments out of the escrow as money is earned.

Unfortunately many law firms get the initial retainer but don't follow up. The retainer runs out and now you are billing for charges you've already incurred. Weeks pass and your operating account gets lower and lower. You need an application that will notify you when the retainer balance on a given matter gets low so you can send out retainer replenishment requests before the money runs out. You take action before there is a problem rather than reacting afterwards.

Integrated Retainer and Billing Tools

Evergreen retainers are so important to healthy cash flow that they deserve two mentions in this paper. Not only is it important to keep the balances high, it's important to know when to use them. Remember that retainers are trust funds. That means that, even though you have that money in your account, you can't spend it until you've earned it. However once you have earned it, you can transfer that money into your operating account to cover client invoices.

This is why you need to be using a billing system that includes retainer management. They simply are not separate tasks. You need to know a matter's retainer balance, whether or not it will cover an invoice, how much of it is in your trust account and how much is in your operating account, and so much more. Effective retainer management lets you get paid instantly.

Expense Tracking

Whether you work on retainer, invoice the client monthly, or get your payments from a contingency settlement, you still pay for your own expenses first and try to get reimbursed later. Regardless of your billing model you can't get reimbursed for expenses you don't claim.

Law practices often find "expense leakage" cripples their cash flows. The problem is that not every expense gets documented in the appropriate matter so it never gets billed and you end up giving the client some unintentional pro bono service. It is essential you have a system that allows you to document every expense you incur on a case, preferably at the time the money is laid out. Otherwise lost receipts, bad memory and sloppy bookkeeping can cost your firm an enormous chunk of income.

Billable Hour Tracking

Just as you can't collect on unbilled expenses, you can't bill on unclaimed time. Everyone in your firm, from clerks to senior attorneys, should be documenting billable hours every day. Don't try to recreate your schedule from memory. You will not only inevitably forget about certain hours, but you could unintentionally overbill a client and end up facing an ethics complaint.

A senior member of staff should look over all timekeepers in the firm. Is everyone pitching in appropriately? If someone consistently bills fewer or more hours than everyone else, then that bears further investigation. It's also important to correlate each person's completed task list with the billable hours. Is each task getting billed, or is there leakage here as well?

Timely Invoices

Even the most honest clients aren't going to pay if they don't get billed. You should routinely send out invoices at least monthly. For cases that are over quickly, you should bill immediately rather than waiting for the next billing cycle. If you wait to bill, you can expect the client to wait to pay. Every day you are unpaid is an interest-free loan to your clients.

Make sure your invoices are clean and easy to read. If they are littered with jargon, over-detailed expense reports and confusing lists of figures, then they aren't going to get paid. Clients will put them aside until they can call and ask questions. Uncluttered invoices get paid faster, and faster payment is better cash flow.

Pursue Aging Accounts

Take one sixth of the cash in your wallet and throw it away right now. No? You think that's crazy? Well, according to the Center for the Study of the Legal Profession at Georgetown Law, attorneys collect only 84% of what they earn so that's what most law firms are doing anyhow. A large part of the problem is attorneys don't like to dun delinquent clients. You've built a personal relationship with this person and you don't want to be the bad guy.

You don't have to be. Clients may just need a reminder. Or maybe they are suffering some temporary financial setback. You can be sympathetic, while still reminding them of their obligation. Or maybe you can work out a mutually beneficial payment plan. Polite follow ups to unpaid invoices greatly increases your collection rate and your cash flow.

Moving Into The Cloud

In nearly every method I've mentioned above, timeliness is essential. The sooner you complete a task, the sooner you get paid, and the sooner cash flows into your practice. Using cloud-based legal billing software enhances every one of these suggestions. For example:

- Enter billable hours and expenses as soon as you incur them, even if you are away from the office.
- Answer client questions about an invoice no matter where you when the client talks to you.
- Issue invoices, retainer replenishment requests and late payment reminders as needed rather than having to wait until you are back at your desktop computer.

The flexibility to monitor and administer your practice's cash flow at your convenience is a powerful financial management tool. You take control and build a healthier, more financially stable practice.

Use The Right Tools

These philosophies reflect not only how I have run my businesses, but how we at CosmoLex have developed our practice management software. We set out to create a tool that would give attorneys the ability to manage their practices more effectively and with less effort than when using other software packages. However none of this advice requires CosmoLex or any other billing software. Even if you are still working with old-fashioned manual bookkeeping methods you can still adopt these changes to build a better law firm.

But seriously -- it's the 21st Century. Use law practice management software.

The most important advice to get out of this article is that you have to take an active role in managing your practice's finances. You will actually end up spending less time on administrative tasks than if you just react to emergencies, and you will have a more reliable cash flow to secure your law firm's future.