



The Legal CFO's Guide To Cash Flow In The Current Climate

Practical advice for legal finance leaders to ensure cash in the bank
and encourage a culture of commercial awareness





Introduction

The challenges presented by the global pandemic have forced law firms everywhere to take a long hard look at the health of their cash flow, with particular attention on liquidity at this time.

From restrictions on partner drawings, delaying supplier payments, furloughing staff, or introducing four-day working weeks, firms are varied in their approach. The differentiating factor in choosing which of these methods is needed, comes down to how cash rich firms are.

From our conversations with law firm clients, we have put together some practical guidance, in a series of articles, on how to shorten the work-to-cash cycle, including methods to encourage clients to settle bills in a timely manner, and how best to build a commercial culture.

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Article One:

Law firms need better financial visibility to maintain healthy cash flow

Law firms, like many businesses, continue to take measures to manage their cash flow, a key component of liquidity, at this time. The impact of the global pandemic has no doubt added pressure to this ongoing daily challenge. From restrictions on partner drawings, delaying supplier payments, furloughing staff, or introducing four-day working weeks, firms are varied in their approach.

The differentiating factor in these methods comes down to how cash rich firms are right now, and the forecasted availability of funds in the short-medium term. Another influencing factor will be their client verticals, and the extent to which they are being affected, but cash balance will ultimately be the decider.

The good news

As we all wait to see what the full economic fallout is from the crisis, the good news is that many industry leaders are optimistic of the overall impact on law firms – citing the demand for legal advice as high and in contrast to the 2008 downturn – albeit, highly dependent on the type of legal advice firms are delivering and their client base.

In a recent article¹, the former managing partner of Andersen Legal and Clifford Chance, Tony Williams, spoke of the legal sector being 'significantly better off than other parts of the economy', and of lawyers being able to work from home 'reasonably well'.

Although he does point out that US firms may still be hit with the calendar year-end vs. the UK year-end that has just happened, meaning the UK firms should be less short of cash.

Realizing cash

Aside from year-end collections, what other proactive measures can firms prioritize to keep cash flow as healthy as it can be? Going back to basics and assessing some of the fundamental processes that lead to cash in the bank is a good place to start. After all, it is only one of the final elements in a 'cradle-to-grave' financial engagement model for a legal transaction.

Firms should look at all measures to shorten the work to cash cycle – focusing on collections every month, and not just a big year-end push. Likewise, those firms with an accrual model need to look at shortening the gap between work delivered and billed. In both models the goal is to hasten both the delivery of the invoice and their payment.

A holistic view of the entire firms working capital is needed, a view that must be backed by accurate high-level data that can then be drilled in to with the correct metrics to focus on cash flow and profitability. E.g what would be the impact of widespread extended payment terms? Which market sectors does it make sense to prioritize? Which departments are likely to be able to make the most contribution?

¹ The Global Legal Post, 'Now is the time for law firms to deliver on their stated values'



To survive the current climate, also having a very clear strategic plan on where to prioritize efforts, be it on WIP, AR/ Debt, or a likely combination of the two, will be key.

The full process

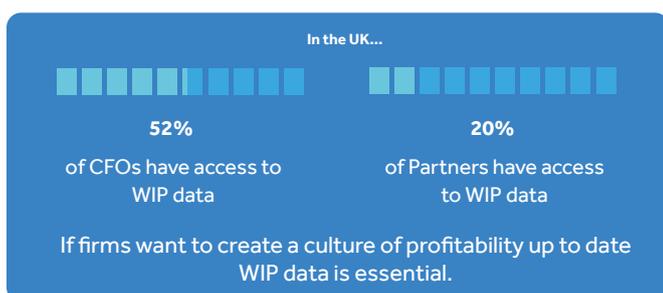
Issuing bills promptly, to allow swift cash realization is undoubtedly important – but it is also intrinsically linked to continuing to win business, lawyer utilization, effective time recording and then tight cost management – the full process, not single measures.

Clients had already been increasingly demanding more transparency of costs, and that is likely to intensify. We have always been strong advocates of enabling law firm management teams to be 'driven-by-data', and so too, unsurprisingly, are law firm clients.

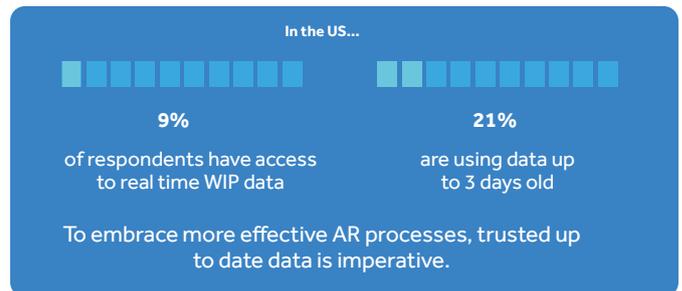
You cannot control what you cannot see

In our recent [Global Cash Flow Survey](#), we found an interesting number of lawyers and finance teams globally lacked access to timely financial information.

In the UK, we found that just 52% of CFOs have access to real-time WIP data, and just a fifth of Partners could readily view this essential information.



Likewise, in the US just 9% of all respondents had access to real time data for WIP and 21% are using data up to three days old.



The question of how law firms can improve working capital, and increase liquidity – without accurate, real-time insight to the current state-of-play is even more crucial now. Having visibility of key WIP and AR data is surely the first step to ensuring the longevity of healthy cash flow at this time.



Article Two:

What can law firms do to encourage clients to settle their bills promptly?

In the last article, we addressed the current significance of cash in the bank, and how getting the basics right with service delivery and billing should be a top priority to achieve better cash realization. Taking a step further, what other proactive measures can firms take to help their clients to settle their bills at a time when cash really is king?

What can be done?

A recent Gartner survey¹ of 99 CFOs and finance leaders revealed that concerns about the big picture implications of the pandemic have grown to tie cash flow worries as the top concern cited by respondents.

It's easy to assume then, that legal finance teams will soon be tasked with implementing new ways to ensure law firm clients can settle their bills in a timely manner.

The best methods for this are being frequently debated in the industry. If clients apply pressure for rate relief in the near-to-mid future, law firms could consider any of the following options, and consequently add value to the client relationship:

- Alternative fee arrangements like fixed fees or capped fees
- Discounting standard rates, flat discounts or early payment discounts
- Upfront billing or billing on milestones
- Extended payment terms

These methods are not new, and now is a great time to be putting previous theory into practice. But law firms should be strategic with their approach to applying discounts to different client verticals and legal work types.

Questions should be asked such as, what do the clients themselves want? And do they actually know yet? What verticals need more help now, and which will need more help in the mid-term as the impact wave rolls through the economy? Which will recover fastest and restore back to previous ways of working? How are payment approval times likely to vary?

Sadly, the impact of the economic downturn on many businesses will also call for more rigorous credit checks to also be applied.

It's clear that a tailored approach is needed but being ahead of the competition could be a key differentiator as the fight for new deals grows in intensity. Having clear-cut communication with clients is valuable too. Encouraging open conversations throughout a matter on current progress, scope creep, or any over-runs, rather than waiting to the end, will give the client more transparency, overall confidence and ultimately decrease the risk of write offs.

Your side of the deal

Alternative fees, discounting and extended payment terms are all enticing ways to win new business and ensure timely payment, but they

¹ Gartner, Inc. survey 'CFO Actions in Response to COVID-19'



cannot be considered in isolation. Monitoring profit leakage throughout a piece of work is also vital, as is having the discipline to ensure the leakage is minimal.

Applying rate relief is all well and good, but this should only be done if the work will still be profitable at the end – even if that profit is likely to be marginal given the current circumstances.

Factoring in any change to a commercial offering will have an impact on a firm's cash and profit position, whether that's the value itself, or the time to realize it. Consideration and analysis must be applied to ensure that what may seem like a great client incentive is not replicated widespread within a business to the detriment of the balance sheet.

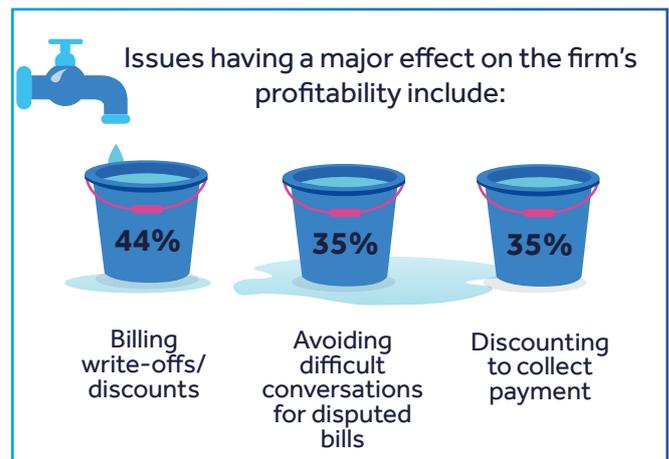
If a piece of work is underpriced at the outset, poorly scoped with use of highly skilled staff for mundane work, and includes a certain amount of billing write-off, it's pretty obvious that the work is unlikely to be profitable, and might even have the opposite effect on the bottom line.

To add to this, clients will inevitably apply pressure for billing transparency as a result of the economic downturn. To overcome these challenges, law firms need to ensure they have complete visibility and control of their working capital and costs.

In [our recent survey](#) of 257 senior law firm finance professionals, we found that in the UK, 37% cited underpricing work initially and poor scoping of

work up front with customers (32%), as having a major effect on the firm's profitability.

In the US, the results showed that billing write-offs/ discounts (44%), avoiding difficult conversations with customers for disputed bills (35%) and discounting to collect payment (35%) were all underlying process issues. These findings are even more relevant now. With more pressure than ever for cash realization of bills – full financial transparency of pricing, scope, and payment is a must.



The underlying problem often comes back to a lack of up-to-date financial insight that is backed by reliable data. For law firms to successfully implement rate relief for clients, while ensuring work remains profitable and bills are paid on time, visibility of the fundamental data is needed to support collaboration across finance teams and lawyers, and should remain a top priority.





Article Three:

Why now is the best time for law firms to build a commercial culture

In our previous articles we covered the key measures firms should prioritize to maintain healthy cash flow, encourage and enable clients to pay their bills promptly and looked at how ensuring cash in the bank is critical throughout the whole legal matter process.

There is an underlying consideration however, that will help firms to really gain a competitive edge; enhancing the commercial culture of the firm to support its profitability potential.

For firms who have previously struggled to change lawyer behavior, current events are driving change across the industry and now is the right time to start putting building blocks in place to implement a commercial culture.

What we learned from 2008/09

The economic downturn in 2008/09 saw the rise of the discerning client and, as a result, the introduction of dedicated pricing teams, the implementation of pricing policies and the more granular breakdown of budgets and matter plans.

These pricing and budgeting experts have subsequently learned to work closely with legal project managers to ensure that budgets are kept in check throughout the lifecycle of a piece of work and therefore maintain profitability and client satisfaction.

To differing extents, law firms have learned the theory for staying profitable – they are aware of the pitfalls of underpricing at the outset, profit leakage in the delivery of the work, and

the causes for delayed payment or billing write-offs. The key focus will undoubtedly remain on cash, but underpinning profitability is the best place to start. Now is a key time to really put that theory into practice and to ensure that financial understanding lands resoundingly with partners and other lawyers.

After all, it is the lawyers that are the front line and firms will rely on them to pick up the phone to their clients which will have a positive effect on client relationships and builds commercial awareness for lawyers. If alternative payment arrangements are going to be offered, there should be guidelines and education for lawyers about which ones to use and why.

Actionable data

In order to make educated decisions, real-time visibility of the firm's financial data is a must – not only for senior management – but for the partners and lawyers also. Some lawyers will already be commercially savvy, and others won't. This comes down to many factors but even with the best will in the world, lawyers cannot be expected to prioritize the firm's bottom line without relevant up-to-date data to inform them about how best to impact it.

Adopting a commercial culture does not mean that sensitive financial information needs to be shared in full throughout the firm. Relevant information at a client or individual matter level can, and should, be shared to empower the right staff to make informed decisions. Providing visibility of key metrics such as time entry, work in progress, debtors and individual client and matter



profitability should all be considered.

[Our cash flow survey](#) showed that although firms were trying to influence the behaviors of their lawyers, they were not providing them with visibility of the key financial data they needed.

For example, 41% in the US said they were planning on implementing incentives/penalties to 'increase profitability margins.' Clearly such strategies cannot be deployed if lawyers do not have a complete understanding of the necessary financial metrics, by client and matter – yet only 14% in the US said that their partners had access to this key profitability data.

Likewise, in the UK, 54% confirmed the implementation of incentives/ penalties for 'reducing discounts below standard rates.' Half were planning to implement incentives / penalties for 'increasing cash recovery' – however, only one in five partners have access to this data currently, which raises questions as to how they can be realistically incentivized to increase said recovery. Firms need to address the data disconnect to realize this goal.

Change Management

With all the change that has been forced through with the shift to remote working, now is also the perfect time to adopt technology to help reinforce that culture of commercial awareness. Lawyers who were reluctant to adopt new technology or change their behaviors around pricing or billing will be more ready to adapt than they ever have done, and providing them with the relevant financial data they need to make informed decisions is the first step.

Clients will be increasingly discerning over bills, while still expecting a high quality and speedy service. Lawyers will need to be able to deliver the

service without having a negative impact on the bottom line – a point they will be more aware of in times of economic difficulty. Partners cannot simply visit the finance team in person for an up to date report, but they still need to be informed.

Technology is the bridge to maintaining healthy cash flow and first-class client service.

About BigHand Quantum Working Capital Edition

In response to our clients contacting us to help them, we have developed an easy to deploy Working Capital Edition of our flagship financial BI Solution - BigHand Quantum. We are making this available to assist law firm financial leaders get access to core working capital data. The firm-wide dashboards highlight the most important WIP and AR metrics for better financial visibility to support business decision making.

WIP and AR can be managed by age, ensuring outstanding matters are not forgotten and a flatter billing/collections cycle is achieved. With the increased financial visibility, law firms can improve their cash flow position, drive more commercial behaviour among partners and ultimately, maximize profitability.



To find out more about this new solution and how BigHand can get you up and running in a matter of days, or to attend one of our upcoming webinars, visit our landing page:

<https://www.bighand.com/en-us/our-solutions/quantum-working-capital-edition/>



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