Improving Law Firm Cash Flow Amidst a Crisis

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Healthy, sustained cash flow has always been central to success in any business, and law firms are no exception. However, during a prolonged economic crisis (such as the impending global recession), capable cash flow management is particularly crucial—and, unfortunately, increasingly difficult—for law firms. That is, while a decrease in revenue is challenging under any circumstances, a halt or reduction to firm revenues during a crisis like the current economic downturn can be a weightier burden to bear—considering the many personal strains you and your staff are likely already juggling.

All is not lost for your firm, however. While you will undoubtedly encounter many challenges in the weeks and months to come, there are steps you can take to help ensure your law firm's cash flow is as strong as possible under any circumstances—like improving firm procedures, reducing costs, and exploring appropriate financial relief options for your practice. In the following post, we'll outline ways to improve your law firm's cash flow—and what steps you should consider if your law firm is experiencing cash flow problems.

Discover 10 Proven Strategies to Boost Law Firm Profitability and Success in our blog.

Improving cash flow for your legal practice

Managing law firm cash flow is never a simple task, but a proactive approach is key to optimising revenues—now more than ever. Even if your firm's revenues are down for unavoidable reasons, there are always measures you can take to improve the situation. Consider the following strategies for better cash flow management at your firm:

Review your current cash flow

It's impossible to improve what you don't fully understand. Before you can boost cash flow at your legal practice, it's imperative that you have a complete picture of the current (and future projected) cash flow situation—which necessitates the need for up-to-date books and a cash flow forecast.

If you don't already have a solid grasp on this, it's not too late: This article outlines the importance of accurate cash flow forecasting and projections for law firms, while this guide explains how to create a forecast.

When reviewing your firm's cash flow statements, you'll want to regularly know the numbers. Some key questions to consider include:

- **What's the worst that could happen?** Project your firm's worst-case scenario business position against previous trends.
- **Where is billing headed?** Forecast billing for the next three-to-six months. Compare each month against forecast, and factor in any fluctuations.
- **What is the shortfall?** Look ahead to three months from now, six months from now, and beyond.
- **What support can be taken?** If support is taken, consider when it must be repaid.
- **What will the firm's profits look like for the next few years?** Review 12- and 24-month profit and cash-flow forecasts (including repayments, if necessary).

All cash flow forecasts and projections should be updated and revisited regularly to accurately reflect your law firm's cash flow. By understanding your firm's current and future cash flow situation to the best of your ability, you will be much better equipped to manage and make tough decisions when necessary.

Improve your collections process

No one loves having to follow-up on unpaid invoices, and it can be particularly uncomfortable to pursue clients for payments during a crisis. While it's natural to be concerned about how mid-crisis collections could negatively affect your client relationships, it's reasonable (and important for law firm cash flow) to maintain your collections process.

Instead of thinking of yourself as a debt collector, take the opportunity to practise a client-centred approach to collections—offering clear options that work for both your clients and your firm. Here are a few tips:

1. Review your process

With law firm cash flow taking on more prominence during these unprecedented days, it's as good a time as ever to spend some time assessing your firm's accounts receivable management process. The process should be obvious and enforceable—if not, your first step should be to tighten up and establish a clear process as a foundation for your firm.

2. Take action

If you're dealing with overdue invoices, don't delay or put them off. Take action as soon as possible by sending kind reminders by email to clients. If gentle reminder emails don't solicit a response, however, a phone call may be necessary.

3. Use tech tools

Technology can enhance competence and improve collections at your firm—while simultaneously taking some of the work off of your hands. Consider, for example, using legal billing software like Clio to help make the collection process more efficient and save your staff time. For outstanding bills, a tool like Faster Invoicing helps you quickly send invoice reminders to clients.

Improve productivity with technology

Speaking of technology—whether your firm is working remotely or not—using trusted cloud-based solutions can help your firm work more effectively from anywhere—providing a much-needed boost in productivity, billable work, and efficiency during hard times like the COVID-19 crisis.

Our *2019 Legal Trends Report* found that the average lawyer spent only 2.5 hours on billable work each day, squandering the rest of the day on administrative tasks that don't bring in revenue—which is a big disadvantage to your firm's revenue and cash flow possibilities.

The right technology can help your firm save time by automating time-consuming day-to-day tasks like legal document and case management, time and expense recording, and more. In order to select the best technology solutions for your law firm, focus on the problems you're looking to solve. This article on law firm tech expands further on what technology your legal practice needs.

What to do if your legal practice experiences cash flow problems

While it's all well and good to take steps to improve your procedures for the future, it can be more stressful—and require more immediate action—if your law firm is currently experiencing cash flow issues in today's evolving business landscape. If this is the case for your firm, consider taking these measures:

Reduce costs

While it may be a tedious, uncomfortable process, reducing costs should be the first step to improving cash flow during challenging economic times. Here are a few areas where you may be able to cut costs:

Negotiate a better price from your service providers. Companies like your phone, internet, and other service providers tend to have measures in place to help customers in need during a crisis, and you won't know what help is available unless you ask—so don't hesitate to reach out and try to arrange a better cost. Some service providers may

be willing to defer payments or offer a few months of service at a reduced rate (or no charge) in order to help keep your law firm in business—and retain you as a long-term customer.

Stabilise monthly costs. Do your firm's utility costs vary from month to month? If you aren't already paying a fixed amount for utilities, contact your service provider and ask to switch to a fixed monthly payment structure so you can better budget during uncertain times.

Make cuts where you can. While some tools that maintain business continuity and cash flow are essential—like case management software—and should be the last thing to consider cutting, if law firm cash flow is a problem, it's time to take a hard look at any extras or areas that have room to lessen. Are you paying for non-essential services? Are there extras around the office that can be cut? When you decide what costs to cut, communicate clearly and early with your service providers to maintain a good relationship with them—you never know when you'll need their help again.

Consider selling non-essential assets

Does your firm have extra office space or office machines that no one uses (especially if everyone is working from home for the foreseeable future)? While every law firm has a different definition of what's considered "non-essential," any asset that won't impact your law firm's business operations—from equipment to real estate—should be considered as a possibility to be liquidated in lean times. Selling these non-core assets can help you raise cash relatively quickly.

Take out a line of credit

Even if you don't need it currently, you might also want to consider a line of credit or overdraft as a backup plan for your law firm. This gives you additional financial cushion and tends to have a higher credit limit and lower interest rate compared to credit cards. Since you are only required to pay interest on what you use, you don't have to worry about incurring interest if you don't use the line of credit.

You may also want to try looking into online financing companies, or lenders who offer online applications and quick decision making. This can drastically impact how soon your law firm can access a line of credit.

Don't be afraid to negotiate with creditors

Negotiating with creditors can be intimidating, but it may also be essential if your firm is facing cash flow difficulties—especially during a crisis. When attempting to negotiate with creditors, don't be afraid to communicate your cash flow challenges. If you're

struggling, try requesting a lower interest rate, a higher credit line, or changing your payment options. Keep in mind: A respectful and positive tone will also go a long way towards getting the result you want.

Difficult decisions: Reducing hours for legal staff and contractors

Letting go of law firm staff members is never an easy choice, but it may be necessary when you encounter serious cash flow problems during a crisis.

First, consider all possibilities. If you've taken all other actions (like reducing costs and looking into financial aid) and you still can't afford to keep your staff entirely, consider all your options before you start making your legal staff redundant. For example, are you able to reduce employee hours? Could you start a furlough for employees or contractors?

If you absolutely must lay off staff: As difficult as the choice is for you as a law firm business owner, keep in mind how challenging the situation is for newly out-of-work staff. One option is to encourage newly furloughed staff to train and earn CPDs (if relevant), this can be a good technique to keep them engaged and motivated for their return. Most importantly, show compassion, but be careful not to promise more assistance than you can deliver—you don't want to make false promises and disappoint employees further.

Additional resources to help with law firm cash flow

In times of crisis like those we face today, the responsibility of owning a business can be a heavy burden to carry—but it's important to remember that you are not alone.

While law firm cash flow management is certainly complex—especially during unprecedented times like the global recession—our hope is that the strategies we've outlined will empower you to guide your firm towards the best possible outcome. If you can help your law firm tighten expenses where possible, apply for available funding and credit, and negotiate with creditors, you can hopefully bring balance to your law firm cash statement as the situation evolves.

Considering the complex nature of improving cash flow during a crisis, we've added some additional resources that we hope will be helpful for your law firm:

To learn more about how to manage cash flow, maintain business continuity at your firm, and apply for available financial support from the UK government, check out this online workshop with Teresa Bowe, Managing Director of CCF Accountancy.

We also recently spoke with T.C. Whittaker, the Law Firm Solutions Leader at PwC InsightsOfficer on Episode 12 of our *Daily Matters* podcast. In this podcast, he discussed how law firms can understand their cash flow needs to keep money flowing into the business, and how important it is for legal professionals to innovate and adopt an entrepreneurial mindset to emerge from a crisis successfully.

Note: The information in this article applies only to UK practices. This post is provided for informational purposes only. It does not constitute legal, business, or accounting advice.

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