IMPROVE WIP TO CASH

Enabling Law Firms to Convert WIP-to-Cash Faster Can Make a Two Percent Improvement in Profit Margins

A LEGAL BUSINESS REPORT BY ADERANT
What would an additional two percent of profit do for your law firm?

What would two percent more, added to the bottom line, mean for profits per partner, or bonuses to the associates and other law firm staff? What effect would that have on law firm morale, culture, talent acquisition – and even momentum in a highly competitive environment?

There’s a more important question. If you already had the resources to improve margins, what would it take to set that in motion?

This is well within reach for many law firms.

Without raising billing rates, signing new clients, or cross-selling an existing client, all that’s needed is to make the business processes carried out by timekeepers, from the paralegal to the managing partner, more efficient. Bringing the front office in closer collaboration with the back office, and having instant, comprehensible access to billing rules and guidelines to ensure time entry and prebill review is done accurately and early in the process.

How does this improve a profit margin?

Small productivity improvements in the front office can make dramatic advances in the efficiency and effectiveness of the back office. When the back office is more efficient and effective, invoices get produced faster and more accurately. Submitting an invoice correctly the first time ensures the client is less likely to reject the bill for revisions, allowing margins to improve.
TIME ENTRY CONVERTS WIP TO CASH

There’s a very simple way law firms can test this idea: get time entered sooner, more accurately. This is the one action on which the back office is dependent before it can initiate the business process of billing and invoicing clients for legal work performed. This single timekeeper task is the hinge to converting work-in-progress (WIP) into cash.

In turn, cash has an immediate and measurable impact on law firm profitability. When this happens consistently, the entire system runs smoother.

So why don’t firms force their lawyers enter their time sooner? Unfortunately, it’s just not that simple.

Even so, that two percent boost in profitability is a remarkable incentive to take closer look at feasible ways to improve the process.
A landmark study of 900 companies across Europe and North America published in the McKinsey Quarterly in January 2010 found that back office productivity can improve profit margins. The authors noted many businesses made cost cutting decisions based on high-level information. For example, a company that notices a competitor has fewer personnel in the finance department may be inclined to reduce headcount to what they perceive as an optimal benchmark.

This creates several complications, including the revelation that superior efficiency in one area masks moderate inefficiency in another. Consider how cost-cutting measures uniformly applied to an entire finance operation might find efficiencies in the billing department but also reveal inefficiencies in the collections team of a leaner organization.

However, efficiency is just half the equation. The other half is effectiveness according to the study. For example, a “revenue-management operation, which takes twice as long as its rivals do to secure payment, is far less effective than its peers in managing receivables.”

If you optimize an ineffective process, you just wind up doing that ineffective process faster. Efficiency and effectiveness must be considered together, the study found.

This is because such improvements have a cumulative impact across the equation. In other words, “greater effectiveness can even contribute to higher efficiency.”

The study draws a compelling conclusion:

“Mastering such interdependencies across the breadth of a company’s back-office operations pays big dividends. If an average performer in our database raised its back-office efficiency and effectiveness to top-quartile levels, it would improve its net margin by two percentage points.”

In a law firm, there are a number of additional dimensions. Most notably, the back office is almost entirely dependent on the front office: the billing process cannot begin without those inputs from lawyers, paralegals and other timekeepers.
For most law firms, the billing and invoicing process is prolonged and painful.

According to a survey of business of law professionals that Aderant conducted in 2017, almost half, (47%) of law firms, with 200 or more lawyers, take 1-2 weeks to publish an invoice. About one-fifth (22%) take 2-3 weeks – and seven percent require three or more weeks.

Many of the same respondents believe there’s plenty of room for improvement. In fact, more than 90% said their firm spends too much time during the billing and invoicing process.

What is it that takes so long? For many firms, it’s literally the number of times a human hand touches a piece of paper.

Once the time is entered, the pre-bill process is initiated by the finance team that prints off paper bills and walks them around the office for a pen-and-ink review. The timekeepers will often hand write edits and adjustments, which the billing staff compiles, and uses to amend the invoice in the law firm billing system.

Next, an updated version of the invoice is printed and hand-carried, for another round of review and approvals. The process is rife with inefficiency and in the context of time lawyers spend on non-revenue producing activities, very expensive.

Every touch costs money, write offs and write downs and client rejections notwithstanding.
Most pundits don’t give law firms the credit they deserve for the very creative ways they have responded to industry pressures. Pricing pressure is a good point, as the survey of business of law professionals found it was the top challenge facing law firms.

While pressure on pricing is not new, lawyers in large law firms have clearly reached out to new people with different expertise – pricing directors – to solve this problem. More importantly the survey provides tangible evidence that this is happening more broadly in law firms: nearly half of respondents (47%) said who they collaborate with inside the firm is different from five years ago.

The challenge that remains for firms, is they haven’t organized to capitalize on this transformational success. All the creative legal solutions law firms are delivering to clients are still supported by the same tedious billing processes. Just like law firms have been creative in serving clients, they need to add creativity into how they manage that work.
THE RISE OF BILLING GUIDELINES AND E-BILLING

By contrast, corporate legal departments are organizing to manage their work – through sophisticated legal operations functions with a mandate to reduce legal spend. These groups are implementing, quite successfully, billing guidelines and electronic billing (e-billing) systems.

In the business of law survey, more than half (54%) cited billing guidelines and e-billing as the most difficult aspects of law firm billing and invoicing. Respondents seemed genuinely frustrated over these two subjects and for good reason.

Billing and rule guidelines have proliferated rapidly, and perhaps have even over-corrected the problem, whether real or perceived. These tend to be intensive documents that define what legal work corporate counsel will, and will not, pay a law firm to perform.

The requirements can vary from the stringent use of phase-based tasks, over the course of complex litigation for example, to denying block-billing. One prominent industry pricing director lamented prohibitions on fees for law librarians – what he says is the “lowest cost” and “highest value” resource in many firms.

Some billing guidelines can run anywhere from a dozen pages in length to 40 pages, and even longer guidelines are not uncommon. Each guideline has specifications unique to a given corporate client. This means when considered together, many of these are anything but standardized from the law firm’s point of view. Whether a law firm has 10 clients or 100, adherence to these quickly becomes unwieldy.

E-billing adds yet another layer of complexity because these technologies bring automation to bear on the client-side review of legal invoices. These systems scan invoices for compliance with billing guidelines and may trigger alerts that flag certain entries for review.

The challenge is compounded because there are many different e-billing platforms – each with its own technical standards. As a result, law firms find themselves in the unenviable position of trying to accommodate whatever e-billing system a client happens to have.

Consequently, compliance often hinges on how the narratives accompanying law firm time entries on invoices are written, rather than the quality or outcome of legal work.

To that end, industry commentary around the topic sometimes suggests that time entries have become a bit of a game – albeit one that leaves the back-office scrambling to modify invoices – amid incredible constraints – before being sent to a client.

These factors are added friction that increasingly drag on an already slow process of converting WIP-to-cash – and one way or another, firms are likely to feel it sapping law firm margins.
FIVE WAYS TO INFLUENCE TURNING WIP INTO CASH FASTER

Legal technology has long promised to bring efficiency to the back office – and that’s part of the problem: the traditional product focus on the back office has come at the expense of the front office.

To create efficiencies in the back office, law firms must adopt technology that creates a positive user experience for billing lawyers and other timekeepers. This is the catalyst that sets in motion an organization that can fundamentally turn WIP into cash faster.

Consider the potential upside the following five influences have on profit margins.

1. **Consider technology in the context of what all your lawyers do.**

Too often, law firms set out hunting for a technology solution to solve a specific problem. Over time, law firms tend to aggregate a patchwork of systems. This requires lawyers to jump from system-to-system as they move about their day. They’ve got one system to manage cases, another for legal research, and a third for entering time.

All these systems work differently and few of them are designed around the way lawyers work. Inevitably, technology feels like a chore for lawyers and one that detracts from what they want to do and what earns the firm income: the practice of law. This leads to aversion which delays those time entries and holds up the entire process of converting WIP-to-cash.
Integration that turns data into an asset.

It’s not just the collection of technology systems in law firms, it’s that these tools typically do not talk to each other. This is a missed opportunity because while law firms have sizable volumes of data, they don’t have a way to marry it for insights to drive business decisions.

The relationship between billing systems and case management is a quintessential example. The revenue a law firm makes centers around case management, yet these systems are not traditionally integrated with billing.

Integration would yield incredibly valuable information including the resources and time it typically takes to complete legal projects and provides two fundamental benefits to law firms:

- The data analysis enables firms to price more profitably and more competitively; and
- Provides easy and self-serve access to real-time reporting and eliminates the persistent need for the back office to “run that report again.”
3. **Use technology to battle technology.**

Modern law firm billing systems contain – and continue to build – libraries of the most common rules found in billing guidelines. This moves the automated bill review process upstream and back into the sphere of influence within a law firm. It also provides a level of structure and standardization the industry is lacking while also breeding efficiency for the firm.

These rules can be implemented at client intake and means that an associate entering a narrative that is liable to trip an e-billing system that alerts the lawyer. This initiates corrective action from the very beginning of the process, as opposed to an invoice finally being sent out to a client, only to come back with a flag for review, which is both inefficient and ineffective.

4. **Implement a streamlined billing workflow.**

Mapping out the billing process will illustrate inefficiencies, which can be rectified and automated. Some law firms are likely to find they can put a dollar figure on what that process costs today, and what the proposed improvement will save the firm tomorrow. Such savings would be in addition to the two percent upside in the margin as a result of the overall increase in efficiency and effectiveness.

This is an important point for business of law professionals seeking to modernize process and technologies within their law firms. Imagine the increase in collaboration and productivity when a partner is suddenly able to manage their WIP from anywhere on a tablet or computer.
5. Make it ridiculously easy to enter time.

Mobility – the capacity to access law firm systems on mobile devices with the same functionality lawyers have come to expect in office – must be woven across all law firm systems. Just as security must be embedded in all that a law firm does, mobility is a minimum barrier to entry. Mobility makes it ridiculously easy for timekeepers to enter time. Combining that mobility with easy access to billing guidelines ensures that time is entered faster and prebill review is done accurately early in the process. If you want to make an immediate impact on margins, get your time entered.

EMBRACING COLLABORATION TO IMPROVE MARGINS

Undoubtedly, most lawyers don’t want to do billing tasks, and in an ideal world, it wouldn’t be a requirement. Yet the legal market remains highly competitive and countless surveys show law firms see operational efficiency as both a challenge and opportunity to get ahead.

The McKinsey study is especially relevant to law firms because of the interdependencies between the front and back office and the associated impact on efficiency. This gives the legal community good cause to examine business of law functions for gains in operational efficiency and a way to continue to drive tighter collaboration between the front and back office.

After all, even small improvements to front office efficiencies can have outsized gains in the back office. That’s the key to improving a WIP-to-cash process that improves margins.
ABOUT ADERANT

Aderant, headquartered in Atlanta, Georgia is a global industry leader in providing comprehensive business management software for law firms and professional services organizations. Aderant is a market leader in technology solutions for practice and financial management, knowledge management, business intelligence, matter planning, calendaring and docketing. Aderant is an established and trusted partner due to its versatile and innovative technology solutions, superior customer support, and reliable implementation process. Aderant operates as a unit of Roper Technologies, a constituent of the S&P 500®, Fortune 1000® and the Russell 1000® indices.

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