

Briefing

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SMARTER LEGAL BUSINESS MANAGEMENT

WORK OF FRICTION

Shamus Rae, head of digital labour,
KPMG, on setting new standards

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Kathryn DeBord, chief innovation officer,
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Robert Camp at Stephens Scown on
the road to employee ownership



Cash me if you can

From tackling lingering lockup days to shaping up sharper negotiators, are firms taking the time to double down on financial management strategy?

INDUSTRY ANALYSIS

Tech your cashflow

Karen Bailey, regional director for strategy and growth for Aderant in EMEA, dissects the challenges for law firms in reducing lockup periods and improving their cashflow

A fundamental lesson they teach in business school is about cashflow. A business can book revenue one month, and still go bankrupt the next. Why? Because in spite of the bookings, the business doesn't have enough cash to cover expenses.

The lockup period facing law firms contributes to a cashflow problem. A study by the financial services advisory firm Smith & Williamson recently found a "9% rise in amounts owed and a 6% rise in unbilled matters year-on-year" with the lockup period growing to 122 days.

Together, between unpaid bills in lockup and unbilled time, the top 50 UK law firms have also left £7bn in cash on the table, according to the study. To put this in some context, Giles Murphy, head of professional practices for the firm, said cash on the balance sheets of all 50 firms was around £500m, while monthly payroll adds up to £572m.

It's not just large firms facing prolonged lockup periods either. Studies from Armstrong Watson, PwC and MHA indicate that firms of all sizes are experiencing this problem, with few exceptions. For example, the MHA report demonstrates the impact this has on cashflow for smaller firms: "In a practice, for every £1m of turnover, an increase in lockup by 15 days will result in a further £41,100 tied up in unbilled time or unpaid bills. For a practice of £5m turnover, the increase in lockup would be £205,500 and for a practice of £15m turnover the increase will be £616,500."

Technology and the three stages of billing

However, while the lockup period is an important aspect, it's only part of the cashflow equation. There are contributing factors across the entire cycle, from work in progress (WIP) to collections. These can be broken into three phases: time entry, billing efficiency, and WIP-to-cash management.

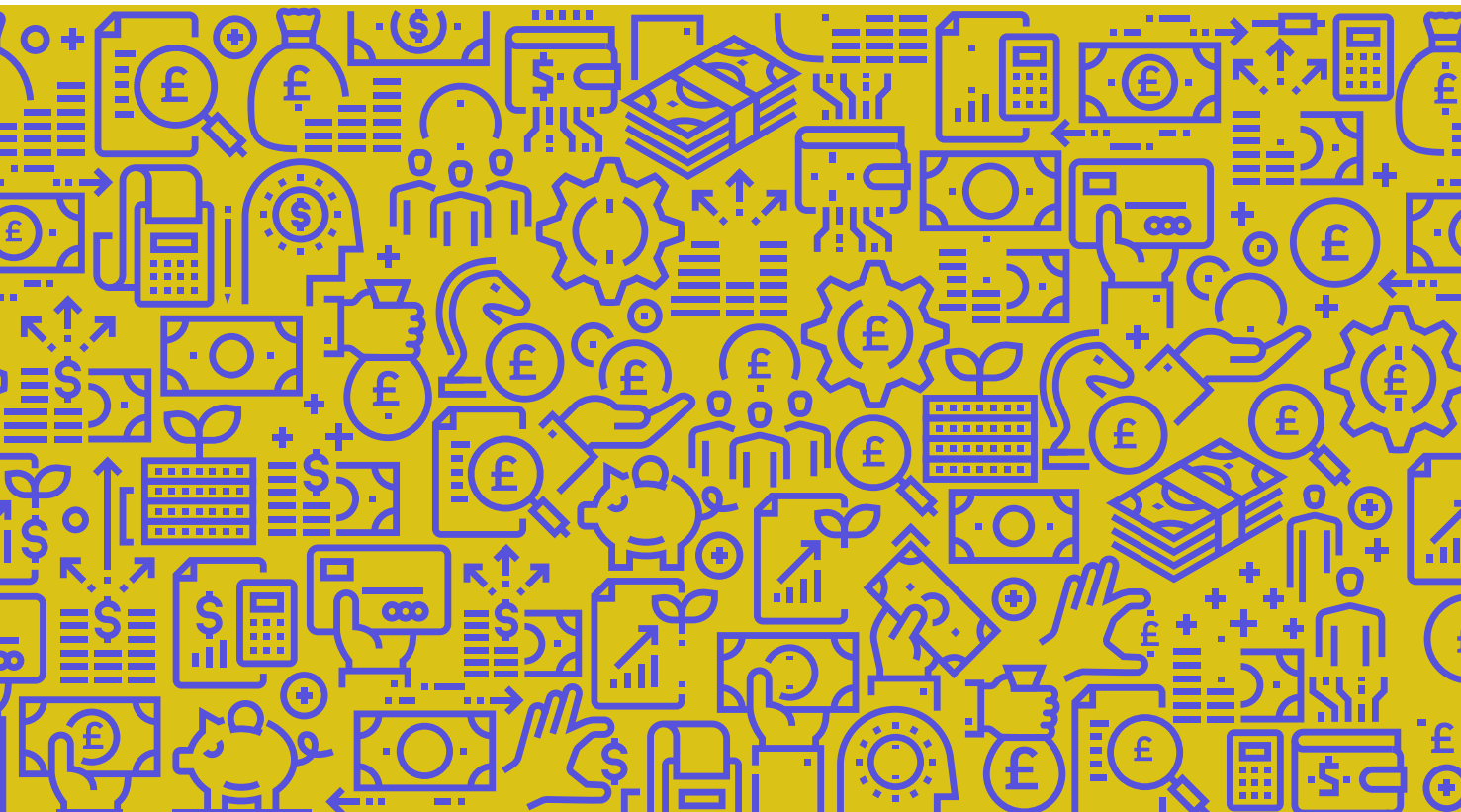
Fortunately, there are some distinct areas where legal technology has proved helpful here. Technology alone isn't going to solve the problem because there are related cultural and process challenges. That some lawyers are just not comfortable talking to clients about collections is one example. The decentralised nature of billing among UK firms – meaning there is less control over the dispatch of the bill – is another.

That said, while technology isn't a cure-all, it can help considerably in the following ways:

1 Make time entry as easy as possible

Time entry is time-consuming and mentally taxing at the end of a long day. Consequently, lawyers delay the task until later, when they'll have more time to focus. That compounds the problem, because as time passes it gets harder to remember the details.

- Mobile time entry lets lawyers enter their time when and wherever best suits them. These apps are so easy to use that some firms find their lawyers choose to enter their time on a mobile device even when seated near their computer.
- Time-reconstruction tools monitor documents,



emails, and calendar items for unbilled time to help lawyers remember work they performed but forgot to bill.

- Automated rules can prevent bills from going to clients with errors or service level agreement (SLA) violations by advising lawyers about words, action codes and billing limits at the point of time entry.

2 Automate the billing workflow

Billing is a necessary, but non-revenue-generating, task that takes lawyer attention away from doing great legal work for clients. Technology brings efficiency by standardising the process, automating the routine parts, and bringing visibility to how individual billing actions impact a law firm's overall finances.

- The same convenience mobility lends to time entry extends to compiling, editing and approving bills at a time and place most convenient. Bill changes show up as real-time information across a firm's books.
- Workflow automatically routes a bill along a collaborative review and approval sequence where the firm defines the moment it's ready for the next step. You can see precisely where a bill is in the process and eliminate any bottlenecks.

- Flagging a bill potentially in violation of e-billing guidelines or client SLAs before it goes out also guides the partner through a workflow to resolve, override, or initiate a client conversation about it.

3 Better access to collections data

The conversation with the client about the bills that are outstanding becomes much easier if the lawyer has been empowered with the relevant history and data behind them. The payment behaviours of the client should be accessible so that any deviations can be identified early and acted upon. Technology should allow lawyers to have access to this information while they are actually with their clients.

- Mobility plays a part here as well, with the opportunity to show the client a copy of the bill from a mobile device.
- If there is true collaboration between the lawyer and the finance team, the lawyer should be aware of the collection activities that have taken place to chase the bills.
- This collaboration should be two-way, and the lawyer should easily be able to advise the finance team of expected payments or advise about the reasons payments are proving slow to save time wasted chasing bills.

The effect of cashflow on profitability

Getting your time entered sooner, publishing bills efficiently and providing lawyers with the data they need to track accounts receivable, debts and collections, will reduce the lockup period and improve cashflow. In turn, better cashflow helps the whole machine to run a little more smoothly, and by extension improves the overall profitability of the law firm. ▾

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