

Cash Flow, COVID-19, and 2022 – What Law Firms Need to Know

For many law firms, COVID-19 struck a serious blow to the amount of cash flowing in and out of the business. Service interruptions, combined with less demand and slower client payments, created an environment where cash flow and revenue suffered significantly. What resulted was difficulty in handling financial responsibilities and managing firm overhead.

Positive cash flow is vital to the management and growth of a law firm. It allows firm leaders to make strategic plans and financially invest in the future of the firm. As legal practices of all sizes move into 2022, they are still navigating the lasting effects of COVID-19, which makes adequate cash flow even more crucial. The following are some cash flow enhancement strategies that can help firms thrive in the new year.

Analyzing the Current Situation

Law firm leaders should always have insight into their firm's current cash flow. Detailed accounting records help to identify the ebbs and flows that take place over any particular period of time. With this information, firm leaders can take advantage of any seasonal trends where particular practice areas perform better. They can also plan for those slow periods that have the potential to negatively impact cash flow. Current and accurate data helps firm leaders better forecast and address downturns before they become financial problems.

Client Payments and Cash Flow

The billable hour has long been a tradition within the legal profession, but it may not be the most effective payment option as firms seek to enhance cash flow during a pandemic. Alternative payment options, like fixed fees and payment plans, have proven more effective at securing the timely and complete payments that law firms need for this goal.

Clients are experiencing difficult times as well, though they still need legal services. Yet legal fees can be prohibitively expensive. By providing them with a greater level of flexibility in their payment options, firms are more likely to get paid in full. For instance, fixed fee arrangements give clients an up-front cost, so they are not blindsided by unexpected costs on the back end. They may also allow clients to divide their legal fees into smaller more affordable amounts.

Electronic Invoicing

With electronic invoicing, law firms can maintain regular and timely invoicing, which leads to enhanced law firm cash flow. Firms need an electronic billing system in place that helps them quickly create invoices and easily collect payments from clients.

Invoicing interruptions were a major problem for many law firms at the start of COVID-19. Firm leaders learned that their outdated invoicing systems were ill-equipped to handle the demands of social distancing and remote work environments. A lot of uncertainty still exists around the pandemic, so firms need to be prepared for the unexpected. That must include a proven electronic billing system that streamlines the entire accounts receivable process.

The Power of Automation

With automated credit card or ACH payments, firms can better promote timely client payments by automatically transferring owed funds directly into the firm bank account under an established payment agreement.

An established norm among a variety of industries, lawyers are just beginning to recognize the benefits of automated payment technologies. Many clients prefer the convenience and consistency of these options. In addition, they provide a greater level of assurance that firm bills will be paid on time and in full, resulting in greater cash flow.

Cash Flow KPIs

Key Performance Indicators (KPIs) are essential to running a successful business and law firm leaders can use these concepts to assess their cash flow. An example of a cash flow KPI would be the average number of days that invoices remain outstanding invoices. With this type of information, law firms can implement improvements that increase practice cash flows in 2022. Other cash flow KPIs could include accounts payable turnover, debt to equity ratios, and working capital.

Greater Productivity

Enhanced cashflow also results from greater productivity within the workplace. When law firm leaders maximize their resources and devote more time to billable tasks than administrative ones, they also promote higher revenues and positive cash flow.

Legal technology and outsourcing should be utilized by firms as tools for improving workplace efficiency, which allows billable time to be spent on billable tasks. The tech industry offers various options for streamlining everything from task tracking to payment collections. By implementing these innovations within-firm procedures, leaders can improve cash flow by redirecting valuable time towards profitable matters.

In recent years, outsourcing has gained significant traction within the legal industry, particularly with paralegal and legal bookkeeping services. Contract paralegals offer skilled professional services without the overhead expenses of a full-time employee. With outsourced legal bookkeeping, firms

can turn over their bookkeeping tasks to experts instead of trying their luck with these important tasks. Like legal technology, outsourcing can enhance productivity, leading to greater cash flow.

TimeSolv is Ready to Help Law Firms Enhance Cash Flow in 2022

The TimeSolv legal billing software team understands the challenges that law firms are facing as they plan for a successful new year under the uncertainty of COVID-19. That's why they pride themselves on providing attorneys with innovations to enhance cash flow, from extensive reporting capabilities to their unique automated payment collection processes. To learn more about TimeSolv, click [here](#) for a free trial offer.