

Getting Your Law Firm Paid Faster – The Connection Between Alternative Billing Arrangements and Zero AR

Whether you are the sole practitioner of a boutique practice or the managing partner of a large firm, getting compensated for client work in a timely manner is always a top priority. Continuous delays in client payments can lead to a variety of financial challenges, including inadequate cash flow and unrealized profits. This is why the administrative needs of running a successful law firm require the quick and complete payment of client invoices.

Accounts Receivable (AR) is the amount of revenue due to a law firm for legal services that have been rendered but for which payment has not yet been received. It is the calculation of money owed to a law firm by its clients. From an accounting perspective, AR is often recorded as a law firm asset because of the client's legal obligation to pay the debt. However, far too many law firms consistently carry high AR with numerous invoices that remain overdue months or even years after services have been rendered.

At the opposite – and more desirable – end of the spectrum is Zero AR, which means that all law firm services have been compensated for, with no outstanding invoices. This may seem like an impossible goal, but there are steps that law firms can take to promote a substantially lower AR that gets them closer to zero.

Typically, lawyers work within a compensation arrangement where legal services are provided to clients under the expectation that they will pay for those services upon completion and invoicing. But when those bills go unpaid, the accounts increase a firm's AR. In their efforts to promote more

complete and faster payments, many law firms have implemented alternative billing arrangements that either move away from the traditional billable hour model or alter it in some way.

This post will explore how these alternative legal billing arrangements, when combined with Zero AR strategies, can get law firms paid faster.

Zero AR Strategies

Law firm leaders cannot force clients to pay their legal bills, but they can implement strategies that promote faster bill payment in pursuit of Zero AR:

- **Stored Payment Methods**

With stored payment methods, clients provide credit card or bank account data to the law firm at the outset of representation, along with preauthorization for future billing. The firm securely stores this data for processing when fees are earned. Stored payment methods provide firms with a greater level of assurance that firm invoices will be paid in total and on time.

- **Scheduled Payments**

Firms can establish a payment agreement with their clients that authorizes them to automatically process the stored payment method on a predetermined date for compensation of legal services. These scheduled payments save clients the time of having to manually remit payment and provides firms with an effective tool for timely and complete collections.

- **Security Deposit instead of Evergreen Retainer**

Many law firms utilize evergreen retainers, where clients entrust funds to the firm, and as billable hours are earned, payment is withdrawn from those funds. Upon depletion of the retainer, the firm requests that the client replenish it.

As an alternative, some law firm leaders have chosen to move towards a system of using the retainer as a security deposit that is only accessed in

the client stored payment method is not authorized. This arrangement provides law firms with a strategy for securing compensation when clients fall behind in their payments and before AR begins to accumulate.

Here's how it works in practice:

- The client provides the firm with a credit card and documented preauthorization.
- The client additionally remits a security deposit to the firm, which is held in trust.
- An invoice is sent to the client with adequate time for review.
- The law firm automatically charges the stored payment method for the invoice.
- If the payment method does not go through, the firm withdraws the outstanding amount from the security deposit.
- Firm requests replenishment of the security deposit from the client.
- Any security deposit funds not remitted to the firm are returned to the client upon completion of the matter.

- **Batch Billing**

Batch billing is an innovative process that streamlines law firm collections. In a matter of minutes, law firms can simultaneously secure payment from numerous client accounts using stored payment methods, instantly moving the firm towards Zero AR.

Batch billing is not widely offered throughout the legal tech industry. Most platforms require law firms to process automatic payments one at a time, which can be extremely time-consuming. To make this strategy work, law firms need legal billing software that offers the tools necessary to complete these processes.

TimeSolv legal billing software leads the way with batch billing capabilities. Their patent-pending technology provides law firms with a unique tool for pursuing 100% collection rates.

Even on their own, each of these Zero AR strategies can help law firms improve law firm realization rates, but they can prove even more effective when combined with these alternative payment arrangements.

The Billable Hour

With the traditional billable hour arrangement, law firms agree to provide services and clients agree to pay as the services are completed. Upon billing for completed tasks, firm leaders expect payment. When this expectation goes unmet and outstanding invoices add up, leading to a high AR. When used in conjunction with Zero AR strategies like stored payment methods and security deposits, law firms can better ensure payment under hourly fee arrangements.

Fixed Fee Arrangements

Some legal matters are perfectly tailored for fixed fee billing arrangements, where clients are quoted a set fee at the beginning of representation. This differs from the billable hour because the client is solely responsible for that quoted fee amount regardless of the number of hours actually spent on the matter.

Clients prefer this method because it alleviates unexpected fees along the way. Law firms appreciate this alternative because it alleviates a lot of billing headaches, while also forcing them to handle matters with optimal efficiency. Zero AR strategies like stored payment methods and batch billing can help law firms streamline the fixed-fee payments to get paid faster.

Payment Plans

Many law firms have started offering payment plans to help clients stay on top of their legal fee obligations. Under these arrangements, clients may pay a set amount on a biweekly or monthly basis for services rendered.

This alternative legal billing arrangement goes hand in hand with stored payment methods and scheduled payments. Having these Zero AR strategies in place provides law firms with an extra layer of protection to ensure that clients fulfill their payment plan obligations.

