Increasing Revenue at Your Law Firm

One of the most acute and urgent issues facing law firms in this climate of economic uncertainty is cash flow. **Read More >**

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One of the most acute and urgent issues facing law firms in this climate of economic uncertainty is cash flow.

The UK is poised for the weakest economic growth in the developed world in 2023, according to new forecasts from the Organisation for Economic Co-operation and Development. With inflation set to reach 10% in the last quarter of 2022 (far higher than average wage rises), the resulting consumer behaviour could severely impact law firms' cash reserves.

2022 is already proving to be a tough year for many law firms, with income falling by an average of 4% across 25+ partner firms.

As Louis Young, MD at leading litigation funder Augusta commented, "The legal industry in the UK had already started to see growth fall off before the pandemic hit. Partners are under acute pressure to monetise invoiced work, however, it may now be harder than ever for firms to extract timely cash payment from clients."

With potential delays to client payments and a reduction in billable activity, improving cash flow will be more important than ever to firms. In periods of recession, the SME market often experiences a downturn, however, the demand for some types of legal work increases during periods of recession, for example, restructuring and insolvency matters and employment law.

Law firms are notoriously adverse to change, however by implementing effective legal tech, firms can action strategies to unlock more billable hours, reduce lockup days, and win more new business.

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1 Market landscape: What if clients make paying household bills their priority over legal bills?

Even though GDP has now returned to pre-pandemic levels, the UK has seen some of the worst growth rates in Europe. There is still a great deal of uncertainty in the market landscape, especially taking into account rising inflation rates and the UK's cost of living crisis. In short, consumers' cash doesn't stretch as far as it once did.

Law firms should consider how the current economic climate affects their clients and take action to ensure that the firm's cash reserves remain robust, with a clear strategy for the next 12-24 months in light of the challenging macroeconomic climate.

The macroeconomic climate right now paints a bleak picture for everyday consumers. For instance, the latest forecasts for the Default Tariff Cap show that a typical household's energy bill will be well over £3,000 a year for the next 15 months, with the average bill over summer 2023 forecast at sitting at just over £300 per month.

May 2022 ONS reports saw 12-month growth rates for petrol and diesel reach 32.8% (the highest rate since 1989). In addition to these monumental increases, the overarching opinion of 87% of UK adults currently is that the cost of living increases means that they can't afford to pay an unexpected expense, and 40.93% of consumers in the UK reportedly don't have enough savings to live for a month without income.

These statistics highlight the economic issues in the UK and make it easy to understand why law firms might have problems getting their invoices paid by cash-strapped clients.

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2 Now is the time for change

Summer 2022 EY research reveals that UK consumers are currently prioritising affordability in their purchasing decisions, with 37% of low and middle income consumers only purchasing the essentials. This compares to 26% from the last survey in February 2022.

This new uncertain economic climate will undoubtedly affect clients seeking legal services, which is illustrated by the large increase of fixed fee arrangements for legal services - rising from 38% in 2012 to 56% in 2021. In these uncertain times, clients are taking longer to pay and firms are finding it more difficult to attract new clients and get repeat instructions, because many clients are putting non-essential legal work on hold.

The SRA added context for law firms in "sectors such as conveyancing, criminal law, PI, and immigration, which have been particularly affected post-pandemic." The trend for some compliance officers increasing time spent on fee earning rather than compliance tasks to recoup costs could "affect law firms' ability to maintain compliance and keep their systems and controls in check".

> **"As we move forward out of the pandemic, we will see how firms best respond to challenges both old and new: securing sustainable, profitable growth, and successfully embedding a hybrid working environment that aids talent retention and capitalises on investment in technology".**
>
> **Kate Wolstenholme**
> Leader, Law Firms' Advisory, PwC UK

Legl gets law firms' bills paid faster

Enabling clients to pay anytime, from anywhere, ensures that firms can improve cash flow with radically faster payment times.

How does your firm benefit?

Legl provides quick and slick payment options for clients to avoid unnecessary delays in the payment of bills. Law firms typically receive payments in less than 12 hours upon receipt of firm-branded payment request links.

Find out more

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3 How reducing lock-up is key to improving cash flow

Reducing lock-up will always be one of the most significant ways for law firms to free up cash.

Across the legal sector, year-end lock-up increased again in the last year, to an average of [137 days] (from 125). This reflects the fact that the number of days taken to collect debts increased from 58 days to 65 days, and the average time taken to bill WIP also increased from 67 days to 72 days.

For firms involved in areas like complex medical negligence claims, lock-up can be substantially higher.

Reducing lock-up even by a marginal amount can have an immediate and positive impact on firms' cash positions. Not only does reducing lock-up free up cash now, instilling better financial practices means firms will be better prepared for the lengthy period of economic uncertainty following the Covid-19 crisis.

> **A 2021 PwC report advises that, "efforts to improve WIP are often based around two key areas: contractual changes to enable more frequent billing; and efforts to automate invoice submission through technology."**

How Legl helps reduce law firms' lockup days

Legl's browser-based solution speeds up transaction times by several weeks - complete onboarding checks in less than 24 hours to get started on substantive work and start billing clients sooner.

How does your firm benefit?

Faster transaction times means that law firms can get cash in the door quicker.

Find out more

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4 Fee earner productivity

The results from the Law Society's LMS Financial Benchmarking Survey 2021 revealed that on average, firms use 90% of fees earned by a fee earner to cover their costs, implying that law firms are operating on just a 10% margin. The LMS survey expanded on this point to clarify that:

> **A firm with a 31 March year end takes on average until 20 February for a fee earner to earn sufficient fees to cover his or her total costs for the year, and for the practice to start earning 'super-profits' for the partners".**

The breakeven point is set to increase, and, despite the impact of Covid-19, salary costs continue to rise. Overheads in many firms have already been cut back as far as possible.

As the LMS survey explains, "Fee income is driven by a combination of fee earner numbers per partner (fee earner gearing), chargeable hours recorded (productivity) and recovery rate achieved per chargeable hour."

While fee earner gearing is an important metric when the industry is growing, Covid-19 has meant that firms have had to look much more closely at fee earners' capacity for chargeable work and the availability of that work. It stands to reason that the greater the productivity and recovery of fee earners, the higher the income.

The LMS survey gives us an example of this:

Based on a firm with **20 fee earners**, each with an hourly chargeout rate of **£175.**

Fee earners record an average of **1,100 chargeable hours** each per year, and recover (i.e. bill) **80% of the recorded WIP value**, resulting in total fee income of:

20 x £175 x 1,100 x 80% = **£3.08 million**

If the fee earners are able to increase the recovery rate by just 1%, annual fee income and profitability will increase by £38,500.

A 1% improvement in productivity represents just one additional 6-minute unit per fee earner per day.

Fees per fee earner is a key issue for all firms to focus on, and alongside this there needs to be close monitoring of productivity and recovery rates.

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4 Fee earner productivity (cont.)

If fee earners are not fully time recording both chargeable and non-chargeable time, then it is very difficult to know whether work is being carried out efficiently and profitably.

It's essential for law firms to leverage data to understand exactly how long it takes their invoices to be paid, who their best paying clients are, and how long it takes their firm to issue invoices. Implementing specialist legal tech provides these insights and ensures that law firms can improve existing processes to drive firm-wide efficiencies.

The LMS survey advises, "Consider why time might not be fully recorded. Is it because work is being pushed down too much and fee earners feel out of their depth, or is there a deeper cultural point that needs to be addressed, with staff members feeling under pressure to charge less time to a particular matter?"

Next steps:

Capturing all time spent on a client matter, for all work types, is crucial, as too is capturing non chargeable time.

Legl focuses on firms' productivity gains by delivering intelligent data to help understand gaps in productivity levels and streamline processes.

Legl helps law firms bill for WIP

Best in class digital tools simplify taking client payments and enable automatic overdue payment reminders to minimise back office manual processes.

How does your firm benefit?

Facilitates billing in intervals using payment request links or split payments.

One authorisation allows firms to automatically collect multiple payment instalments.

Find out more

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5 Reducing lock-up

Billable activity and profit need to be converted into cash quickly during these uncertain market conditions. As Smith & Williamson found, reducing lock-up requires a combination of a change of culture and investment in the right technology. Here's how law firms can reduce their lock-up period:

1. Understand your data and set targets

The first step to improving lock-up is to understand your own data, set clear targets and monitor performance. The goal can be simple, for example: the time it takes clients to pay invoices after issuing them. With Legl, intuitive analytics give you meaningful insights such as how long it takes to onboard clients and how quickly they pay - get a picture of your clients in minutes to drive smart business decisions.

2. Change business practices

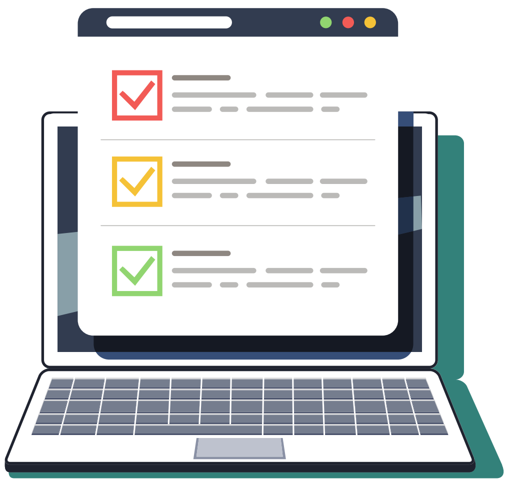
While there are some quick wins to be had using technology, ultimately to reduce lock-up you need to change firm culture. Your action plan may include the following:

2.1) Develop a new culture around time recording to shift to an ethos of focusing on profit, revenue, and payment collections to maximise billable hours.

2.2) Improve client communication. Ensure you are keeping them updated regularly on WIP vs your quote.

2.3) Consider staggered invoicing. If a piece of work is going to cost a client £15,000 over six weeks, consider sending three bi-weekly invoices of £5,000. Small changes to standard practice, such as raising bills as soon as the work is complete, can make a big difference to how soon your firm gets paid.

Moving away from billing at month-end to billing across the month can also result in clients paying a full month earlier. A client who is happy with the outcome of a case may well pay more quickly if they receive the bill promptly.



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5 Reducing lock-up (cont.)

3. Use technology

There are now a growing number of technology tools which can help you reduce your lock-up period. These range from lawyer-facing technology like billing software and time recording, to client-facing technology, like online payment tools.

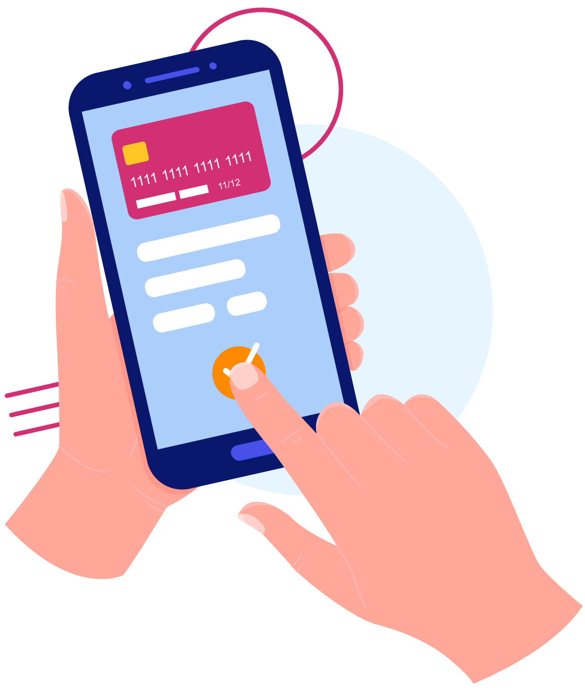
Legl found that 50% of clients pay their invoice outside of office hours, and that when firms include a link to pay online with their email invoices, clients paid on average within 3 hours. Offering clients the option to pay online means firms got paid faster, while giving their clients a more frictionless and modern payments experience.

An efficient culture of creating documents such as client care agreements (including e-signatures for rapid onboarding), and ensuring that the terms indicate clearly that the client will be regularly billed for work in progress is pivotal in digital transformation. Adopting a practice of making sure that lawyers are taking money on account (especially for new clients), and that invoices are sent swiftly through an effective legal tech solution will go a long way to reducing your firm's lock-up period.

Next steps:

In this new world, having an online payment option is simply a necessity: it enables firms to operate remotely and maintain cash flow.

By enabling clients to pay their bills via digital wallets and in a manner that reflects the way that professional services are delivered now is a bare minimum in clients' expectations (Legl offers this).



What would your firm do with 10% more cash?

Successfully reducing your firm's lock-up period can equate to 10% more cash in the bank.

How would you best utilise this cash in your firm?

One way to use this cash is on tech. Law firms are increasingly recognising the benefits of tech - besides the obvious purpose to cut costs. 92% of law firms indicated that they are planning to adopt a greater use of technology for purposes other than to cut costs - making it the number one strategy to improve overall firm performance.

Gartner highlights adoption and investment of legal technologies in some of the following areas:

- E-billing 48%
- Contract lifecycle management 44%
- Matter management 41%
- Document management 40%

Summary

Despite this change and uncertainty, the Thomson Reuters report shows that the legal market currently is at its highest levels of optimism around legal spend of the last two years.

The demand for legal services is increasing year on year, and there's a huge amount of legal services work that still isn't captured each year. Law firms are often counter-cyclical depending on the type of legal work that they do, with the agile ability to pivot when the market is stagnant in one area to another type of legal service.

Now is the time to reappraise both work delivery and service levels in your firm. The simplest way to improve your firm's financial performance will always be to efficiently provide the best possible client service, and charge for it accordingly.

If law firms can embrace new technology and innovation to enhance legal services, it's a win-win for clients and firms alike.

What customers have said:

> "We've seen a reduction in payment time from a matter of weeks to just a day in many cases."
>
> **Helen Strachan, Practice Manager**
> **Burnett & Reid**

> "We reduced our debtor days and improved our working capital cycle. It's had a hugely positive impact on our cash reserves."
>
> **DJM Solicitors**