



"What Do You Mean We Can't Afford It?" The Difference Between Cash Flow And Profit

Attorneys are attorneys, not accountants, so it's an understandable question. But knowing the answer is absolutely vital to the success of your law firm. Bear in mind that more businesses fail for lack of cash than for want of profit.

Quite simply, cash flow is the measure of your practice's ability to pay its bills on a regular basis. To effectively grow your practice, you need to ensure that the timing of cash movements puts you in an overall positive cash flow situation. Sounds simple enough, right?

Unfortunately, here's how it typically plays out:

All the forecasting at your annual practice retreat pointed to blue skies ahead. The firm had just landed several "name" clients, the partners and associates were doing their part on the billable hours end, and your office manager was making substantial technology upgrades to improve office efficiency. Everyone left smiling, assuming solid profits for the year. Yet now that same office manager, white knuckled and panicked, is pacing your office screaming that the practice is strapped for cash. What happened?

Meet The Cash Flow Killers

What happened is that you probably had a bruising encounter with one or more of the three "cash flow killers":

1. You billed too late. Successful billing is all about timing, because memories change over time. It's like the old client varn — the one about the client who savs immediatelv

following the finding, “Gee, my attorney was absolutely amazing!” Later on it becomes, “My attorney did a pretty good job,” followed next by, “I got a good judgement but I really can’t remember what the attorney did.” Finally, you get “Do you know how much those bloodsuckers are trying to get from me!?” Lesson: Bill early, because time changes perceptions, and usually for the worse.

2. You paid too fast (or spent too much). The practice receives a bill — and reflexively pays it immediately. Not good. Law firms have a much bigger investment in capital than they ever did before.

Negotiate favorable credit terms and strategically time the purchase of all those new laptops, servers, printers and software. Along these lines, don’t automatically veto financing. Call it “attorney’s ego” or an aversion to interest payments, but many partners make the mistake of paying cash for big-ticket technology and office equipment. Before you automatically say no to financing, see if it can help put you in a better cash position. By avoiding a large upfront outlay, you could free up some valuable cash.

3. You didn’t follow up on collections. No lawyer wants to be the “heavy” with clients with whom he or she has spent years developing a solid relationship. But receivables grow harder to collect by the minute. The trick, therefore, is to be responsive, but keep it professional. Make sure your firm’s payment expectations are crystal clear.

Watch Your Client’s Bottom Line, Too

Finally, nothing affects a firm’s cash flow like a bankrupt client. So make it a practice to keep a watchful eye on your clients’ bottom lines, too. It’s all too common for a law firm to have a roster of corporate clients whose businesses are growing quickly, loading up on new equipment and piling up the receivables. In the end, though, many of these go-go entities wind up strapped for cash and can’t cover your fees.