



LAW FIRM MANAGEMENT

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has adequate capital

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falling realization rates

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Ensuring your firm has adequate capital

Many law firms struggle with determining and maintaining an adequate level of capital — or available financial resources — to support their daily operations. The nature of law firm billing, collections and expenses can create gaps in cash flow that capital must fill, so it's not surprising that firms increasingly are requiring larger capital contributions from partners. Your firm will find it easier to justify these demands if it has a formal capital plan in place.

UNDER PRESSURE

Most firms are facing unprecedented financial pressure from, for example:

Payable/receipt imbalances. Client payments slowed during the recent recession, and, even though the economy is on the upswing, it's still not unusual for clients to drag their feet when settling bills. Outside vendors, on the other hand, always expect prompt payment. Your firm might not even have a chance to invoice a client before vendors demand payment.

Need to expand. Another financial demand on growing firms involves hiring associates and lateral hires. Even lateral hires who bring clients

with them usually receive several paychecks and incur overhead costs before those clients start generating — and paying — additional revenues.

Fronting expenses. Your firm may have to provide client cost advances during lengthy litigation.

Technology demands. Today's attorneys expect to work with sophisticated hardware and software, and clients expect their attorneys to leverage technology to provide efficient, cost-effective services. Keeping up with rapidly changing technology — and technologically up-to-date competitors — can be expensive.

Retiring partners. As Baby Boomers approach retirement age, some firms have more partners leaving to retire than young partners buying in.

PLAN DEVELOPMENT

All of these pressures can be alleviated with adequate capital reserves. When revenues fall short, your firm can tap its capital to bridge the gaps. That's where a capital plan comes in.

Your plan should address its capital needs for the next three to five years. To quantify those needs, consider your average revenue cycle,

any anticipated capital investments (for example, technology or physical space), operating expenses, estimated client disbursements and perhaps partner draws (although it's usually best to defer draws rather than paying them out of capital). If applicable, your firm should take into account any payment obligations to retired partners.

4 OPTIONS

Once you've calculated your capital needs, you have four basic options for determining



CAN'T WE USE OUR LINE OF CREDIT?

When faced with requests for greater capital contributions, some reluctant partners might suggest instead turning to your firm's bank lines of credit. Many firms do indeed use their credit lines in lieu of, or at least to supplement, partner contributions.

In general, though, partner contributions are preferred because such investments tie partners to your firm and make them more committed to its long-term success. Lines of credit are better used for filling short-term gaps related to late receivables and work-in-process. They're a particularly poor choice for financing long-term assets like computer systems. Indeed, term loans are more suitable for such investments.

Your partners should also consider potential personal liability associated with wielding a line of credit. Credit lines typically are subject to joint and several liability, putting all of your firm's partners at risk of liability for the entire amount owed in the event of default.



the specific amount of capital your firm needs to keep on hand. You might base capital needs on one or more of the following:

1. Monthly expenses (not including partner draws). If your firm has a strong cash flow (meaning prompt collections), you might set capital at one to two months. If you have a slower turnaround, you may need to use three to six months as the measure.

2. Fixed percentage of gross fee collections. When setting the percentage, assess the timeliness of your collections and plans regarding hiring and space. Most firms set the percentage close to 10%.

3. Long-term debt. Putting aside capital equal to half of your firm's long-term debt provides lenders with some comfort. And reassuring lenders is especially important these days because they've become much less accommodating about extending credit to law firms than they've been in the past.

4. Net fixed assets. Using this method assumes that your firm has secured outside loans to finance fixed assets, and that your partners will fund working capital in an equal amount.

When you've settled on the appropriate capital level, you must then decide on the proper breakdown between partner contributions and lines of credit. This decision should take into account your firm's — and individual partners' — tolerance for debt. The higher the debt tolerance, the greater you can rely on credit lines over contributions, and vice versa.

ONGOING EXERCISE

Capital plan development isn't a one-time exercise. You should consider your firm's plan to be a "living document" that requires regular review in light of your firm's current strategic and financial needs. Adjustments should be made as needed and clearly communicated to your firm's partners and other stakeholders. •

Put CRM software to work for your firm

To be competitive, law firms need to take advantage of every tool that can give them an edge. One such tool that's been gaining in popularity is customer relationship management (CRM) software. But making the decision to use the software is just the first step, and some firms stumble when it comes to implementation. Effective implementation requires proper preparation and support.

CONNECTING WITH CLIENTS

The days of the Rolodex are long gone. To connect with clients and potential clients, your firm's attorneys need much more, and CRM provides a critical foundation for relationship building. It gives lawyers easy access to comprehensive information — including colleagues' existing connections with targeted individuals and companies — that can enhance outreach efforts.

Before launching CRM-specific training, introduce your attorneys to the program's benefits by embedding the information in sessions about broader business topics.

CRM software generally includes categorized lists of clients, prospects and other valuable contacts. It goes beyond the standard contact information to collect biographical information, track interactions and map connections. Attorneys can use it to prompt, craft and automate communications. For example, the software can be used to contact clients at certain points in a transaction or litigation and provide templates for doing so.



KEYS TO SUCCESS

Once CRM software is in place, take several steps to ensure successful, firmwide implementation. Partner, associate and staff buy-in is essential and can be accomplished through several means. First, your firm should make a point of aligning CRM goals with your firm's overall strategic goals. For example, if your firm's strategy includes growing revenue in a certain practice area by 20%, you could make developing client profile reports a CRM goal.

Although some attorneys may be skeptical about the value of the new software, others will be enthusiastic supporters from the beginning. Dispatch these "CRM champions" to extol the benefits. Having attorneys share their success stories from using the software with other attorneys is more convincing than having someone from marketing describe how the software can help. As the saying goes, show — don't tell.

Training is another important factor in successfully implementing CRM. Before launching CRM-specific training, introduce your attorneys to the program's benefits by embedding the information in sessions about broader business topics, such as billing or rainmaking. Then, when it comes to the actual CRM training, take a broad perspective, offering it in a variety of modes.

Attorneys should receive personalized one-on-one training in sessions that run no longer than 30 minutes each. You may want to include a partner's associates and support staff in such sessions. In addition, produce webinars and make them available for viewing at their users' convenience and conduct lunch-and-learns on topics such as how best to conduct client interviews to enhance the client relationship.

Even with top-down buy-in and strong training, your firm can expect to have a few stragglers. To get them on board, consider issuing daily business development reports that share new

opportunities and new work entered in the CRM software. Those attorneys who aren't entering information won't show up on the reports. Or require lawyers to stay up to date with their CRM entries to obtain reimbursement for business development expenses.

IT TAKES TIME

For many firms, the introduction of CRM software means changing their culture — and that doesn't happen overnight. So know that effective, widespread adoption of CRM might take some time, but your patience is likely to pay off. •

4 tips for strengthening cyber security

The past several years have seen headline after headline about massive data breaches at hospitals, financial institutions and major retailers. But law firms are hardly immune. And it's not just the big firms that are at risk — law firms of all sizes have sensitive information that makes them vulnerable.

With security now ranking as yet another factor potential clients consider when selecting or remaining with a legal service provider, you can't afford to cross your fingers and hope for the best. The following are just some of the steps your firm can take to reduce the risk of devastating breaches.

1. ENCRYPTION

Encryption is best understood as a program that scrambles files to leave them unreadable to anyone who can't provide a unique "key" to open them. At the very least, your firm should routinely encrypt information stored on servers, desktops, laptops, portable media and mobile devices.

Encryption is particularly critical for confidential information. Consider this: Security experts have

compared sending unencrypted confidential material over a network with mailing the information on a postcard.

2. TRAINING

Rather than directly attacking a firm's servers, hackers are most likely to target its employees'



computers. They often use phishing schemes, for example, to gain access by inducing an employee to click on a link or file that unleashes malware. It only takes one untrained employee to open the door to a far-reaching breach.

Attorneys and staff need ongoing training about the threats they face, potential costs of letting down their guard and steps they should take to prevent or detect breaches. They must understand all relevant policies and procedures — for example, on using firm computers and devices for personal browsing or posting to social media — and do their part to maintain a culture of vigilance.

3. CYBER LIABILITY INSURANCE

All the security measures in the world can't guarantee a hacker won't find a way in, especially with the rapid development and deployment of technological work-arounds.

According to a study by data security research organization Ponemon Institute, the average total cost of a data breach has reached \$3.8 million.

This includes costs related to investigating and remedying the cause, complying with notification requirements, litigation, fines and penalties, and public relations. So cyber liability insurance should be a no-brainer — especially when you consider that insurers have begun to exclude electronic data losses from their traditional liability policies.

4. RESPONSE PLANS

A general disaster recovery plan isn't enough to deal with the wake of a data breach. Your firm also needs specific policies dealing with cyber security issues. The policy should detail how your firm will respond to a breach, leak or other compromise of confidential or sensitive information, including who'll be notified, the actions that will be taken to protect data and the investigation process.

ACT NOW

Cyber security experts agree that, for many law firms, it's not a matter of *if* they'll be targeted, but *when*. But by taking some simple precautions, you can improve your odds of avoiding an attack. •

What to do about falling realization rates

Is your firm's realization rate declining? If so, most firms are in the same boat. According to the 2016 Report on the State of the Legal Market from Georgetown University Law Center and Thomson Reuters Peer Monitor, the average firm's billing realization rate fell from 94% to 87% over the past 10 years. Collected realization fell from 93% to 83% during the same period.

Setting a goal of 100% realization probably isn't realistic. But with a concerted effort, you should be able to keep your rate above 90%. Here's how.

DON'T MAKE WRITE-DOWNS ROUTINE

Poor realization is a problem that begins long before you bill clients. While write-downs sometimes are

necessary — for example, when you've promised the client discounts or when a project has taken longer than expected because you're training a new associate — they shouldn't be routine.

To prevent excessive write-offs, make sure lawyers are using time and resources efficiently. Proper training, communication and delegation can eliminate many of the worst problems. And if you require lawyers to submit time records daily, you can better control the amount of billable time that slips through the cracks. Also require the billing partner to explain any write-downs that are in excess of a predetermined amount or percentage. Having to explain such decisions to other partners will help deter the practice.

PUT PROCEDURES IN PLACE

When it comes to realization rates, the best defense is a good offense. First, put fee structure, billing cycle and method, payment term, and collection policies and procedures in place. Then clearly explain them to prospective clients before you begin any work on their behalf.

To encourage swift payment, offer discounts or value-added services to clients who remit on time and in full.

Exercise particular caution with new clients by reviewing their credit histories and relationships with other firms. Don't accept new clients that seem like significant risks — no matter how high the potential fees. If you're on the fence about a client, consider requiring an advance fee deposit equal to several months of work.

Almost nothing is more effective at keeping realization rates high than sending bills promptly and regularly. To ensure you maintain a schedule, use an electronic payment system that delivers invoices directly to clients, tracks their payments and alerts you when you need to send reminders. To encourage swift payment, offer discounts (even 1% can be a powerful incentive) or value-added services to clients who remit on time and in full. Consider providing the same perks for previously delinquent clients that improve their payment histories.

COLLECT LIKE YOU MEAN IT

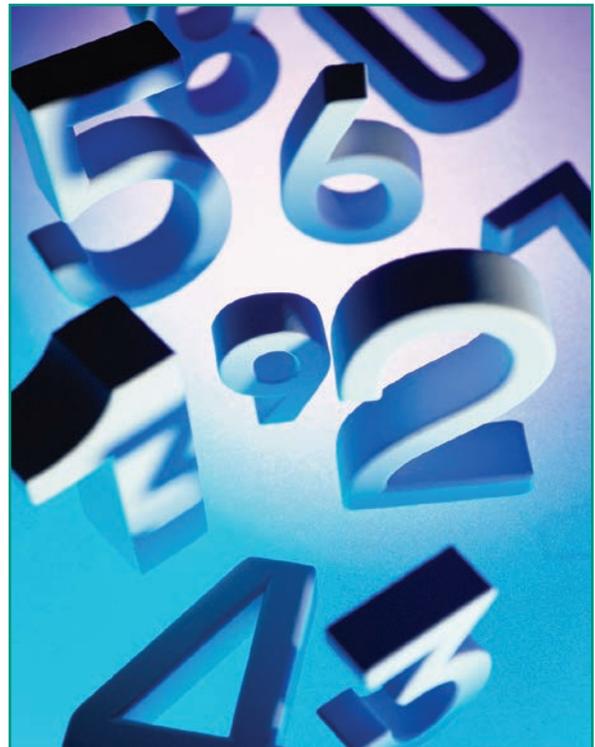
Once a bill is past due, an accounts receivable employee should make a reminder phone call. If the bill remains unpaid, the billing partner needs to talk to the client to find out if there are any objections regarding invoice items — or deeper issues such as dissatisfaction with the work performed. Before sending an account to collections,

your firm administrator or managing partner may want to try to negotiate payment by, for example, reducing or removing penalties, in exchange for immediate payment in full or part.

Although you may not want to accept less than what's due, keep in mind that a collection agency's fees — or worse, litigation — will limit the amount you eventually recover. In many cases, it's better to write off part of an account than to let a dispute escalate. On the other hand, using a collection agency allows your firm to distance itself from the process, eliminating the awkwardness of requesting payments from clients. And outsourcing this function will leave attorneys and staff with more time for other matters.

MANAGE BETTER

In today's competitive legal services environment, firms need to bill and collect every dollar they can. To boost your realization rates, talk to your financial advisor about how you can reduce write-downs and improve collections. •





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