



## Law Matters Newsletter

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### Coping with tough times

The credit crunch impacts on clients, and in turn affects law firms. This leads to lower fee income for many areas of work. Additionally, there is less money passing through client account coupled with a big reduction in interest rates. This removes a substantial amount of income from many firms.



One major retailer recently unilaterally changed its payment terms to 75 day payment, effectively meaning payment up to 105 days after invoice. Other clients, even large ones, may become insolvent, so invoices are unpaid and work in progress is written off.

Although we are clearly in recession, the finest economists disagree on how deep it will be and how long it will last. Economists at the Institute of Directors, however, have looked at previous recessions (there have only been three since the Second World War) for patterns:

- In the three post-war recessions the period of declining output ranged from 3-7 quarters, with an absolute fall in GDP of between 2.5 and 6 per cent.
- Quick recoveries aren't common. Once the trough was reached, it typically took another two years of gradual pick-up before the rate of economic growth returned to its long run trend rate.
- The entire period, from the peak level of output to the time that the economy returned to trend growth, lasted for 3-4 years on average, entailing a cumulative loss of output of the order of 7-10 per cent of GDP— about £120bn in today's terms.

Has the average law manager no hope? Here are 10 ways to cope:

1. Do something! Assuming it will all go away is not an option – certainly not one which will impress your bank manager, your partners or your staff – or your clients. You need each of these constituencies on your side if you want to succeed.
2. Know your firm. In particular you need decent management information, so that you know what is going on and can take timely

action. You need to understand how your firm makes money and which parts suffer from a downturn, and which benefit.

3. Be aware of the risks to YOUR firm and to YOUR clients if you are under too much stress. Be prepared to ask for help if you need it, as soon as you think you may become less effective. It may be as simple as reallocating some of your work.
4. Cash is king. Payment of invoices needs to be collected, but think about how unpaid bills can be avoided. Interim billing little and often may help your client to pay, as may a fee budget. Set credit limits and work in progress limits on each file, and ensure that they are reviewed by someone with experience and authority.
5. Keep your bank manager informed, particularly of bad news. She will not like unexpected crises. More to the point, neither will her boss. They need the confidence that you are in control, understand what is going on and will deliver on your promises.
6. Look at providing value rather than cutting fees in order to compete. It will be difficult to raise fees when the recovery comes. Even finding your client ways of managing their own cash flow will help.
7. Have a plan for recovery. Recessions end, and new opportunities arise. Be prepared to take them. Is now the time to recruit specialists?
8. Consider a discount for prompt payment. One US Attorney gives a 3% discount for payment within 10 days, and 80% of his clients take up the discount.
9. Remember your staff. They will be under financial pressure too, and may be worried about their jobs. Involve them and show your appreciation. One firm organized a financial budgeting day for staff.
10. Be aware of which members of staff are vital to the firm, and keep them happy. Reassure them over their job security (but be truthful). Consider granting an extended notice period to key staff by way of reassurance.

Each firm is unique, so the majority of these suggestions are exactly that – suggestions which may or may not be appropriate to individual firms.

This note is written as a general guide only, and is not applicable to every firm or circumstance. It should not be relied upon as a substitute for specific business advice.

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