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Everything You Need to Know About Law Firm Billing and Collections

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Conventional wisdom (and an [Al Pacino reference](#)) reminds us that we should ABC: always be closing. For lawyers, the idiom might be better stated as always be collecting.

Billing and collections are critical to the success of any law firm. But timely billing and ensuring that your bills are paid in full and on time can be frustrating and challenging. These challenges are even bigger if your firm doesn't have a dedicated billing and collections department.

Luckily, there are [resources and technology advancements](#) to help your law firm streamline its billing and collections process so that your lawyers can get back to lawyering.

Here's what you need to know about billing for the legal industry:

What is a typical law firm billing process?

We know that one size rarely fits all, but for law firm [billing processes](#), there is standard practice. It usually starts with your firm bringing in a new client after a phone call or email and opening a matter (or opening a new matter for an existing client).

Billable time will be logged throughout the lifecycle of the matter, and, if your lawyers follow billing best practices, they'll track time daily. Generally, at the end of each month, your law practice will compile the billed time and related expenses for each client into a draft bill, sometimes called a prebill.

The lead attorney or originator of the client will add notes, adjust costs, and revise the prebill as needed. That prebill bill is then approved, finalized, and sent to the client for payment.

The client then pays the bill. To optimize your client service, you can offer different payment options, including check and online payments through bank transfers and credit card payments. The accounting team stays on top of payments by tracking accounts receivable and will send out reminders to clients regarding any late payments, partial payments, or non-payments.

It seems like a simple process, and it can be. But you're reading this blog post — and we wrote it — because we both know it's usually not. There are ample opportunities for bottlenecks: delays in opening a new matter, attorneys not logging billable hours in time, reviewing attorneys sitting on approvals, bills being sent out late, and everything in between.

Your firm relies on getting paid and paid quickly to stay afloat. A clean, concise, and consistent billing process is the way to ensure that happens. The cornerstone of the billing process is often the billable hour.

What are billable hours?

Put simply, billable hours include all the time an attorney spends actually thinking or working on a matter. Billable time is time spent attending to professional tasks that your firm can charge to a client at the previously agreed-upon hourly rate. Generally, billable time includes things like drafting contracts or briefs, strategizing, researching, speaking or emailing with the client, or attending hearings or meetings.

Billable time is distinct from nonbillable time (e.g., time spent on administrative tasks (like billing!) and continued legal education). Billable hours are tracked in different increments depending on the firm's preference. The key is that they must be tracked accurately to bill a client properly and correctly.

The billable hour is the cornerstone of many law firms' billing practices. However, there has been a movement toward a range of alternative billing structures.

What are some alternative billing arrangements that my firm can use?

We get it: tracking billable hours can be a drag. It's a lament of many legal professionals. Thankfully, there are tried and true alternatives to legal hourly billing. Here are some options for your firm to consider using to bill clients for your legal services.

Flat rate billing

This fee arrangement charges the client a set price for each matter or case without calculating the time spent on the matter. Flat fees may be preferred by clients who want certainty and consistency in the amount owed.

If you use this arrangement, be mindful of the risk of underestimating the work required for a matter and setting the fee too low. Diligence is key here.

Subscription-based fee

Under a subscription-based fee arrangement, your firm provides clients with representation and advice on an as-needed basis for a set monthly fee. It also means that you'll have a regular, predictable income.

Generally, this fee arrangement is beneficial for smaller clients who may need regular advice on matters like intellectual property and business law.

Note that a subscription-based fee is not the same as a retainer. A retainer is an advance payment for future legal services.

Contingency fee

A contingency fee is paid by a client only if the case is won. This type of arrangement is typically

used in torts, such as personal injury matters, as well as in class actions. It serves an important function for individuals who cannot pay out of pocket for representation.

Generally, these arrangements pay the attorney a percentage of the overall award. If you opt for this arrangement, it's important to consider the risk that you may not be paid for your work.

Limited scope representation

Under a limited scope arrangement, you and your client would define your firm's involvement in the case, likely limited in scope, and your services would involve only those tasks. A common example is retaining counsel for guidance in an e-Discovery process.

Sliding scale fee

A sliding scale fee is just that: one that takes into consideration a client's ability to pay and adjusts the rate accordingly. This fee arrangement may help your firm bring in new clients by making services more affordable.

Payment plans

Offering a payment plan may be key to your firm getting paid. Paying out a lump sum may be difficult for cash flow purposes for clients. By offering weekly or monthly payment plans, you can provide an additional service to clients and build goodwill while also getting paid. It's key here to have clear, written guidelines on collections and payment methods.

What are some ways a law firm can standardize its billing policies?

The goal of the billing process is to get paid, and the best way to do that is to send clients bills that are timely, clear, and accurate. Standardization of your billing policies will undoubtedly help with this.

Start by creating a fee agreement template and well-defined guidelines that set forth your billing policies. These guidelines should include things like when in the lifecycle of a matter to send invoices and how detailed descriptions should be.

You should also have a written billing process that includes which attorney reviews the bill, how bills are sent out (e.g., mail or email), and what role the staff or accounting department plays in keeping track of bills.

Standardized invoice review is also essential. An [integrated legal practice management software](#) is your best friend here: you'll speed up the process and minimize human error in compiling bills. Practice management software will also help your firm track payments collected and schedule follow-ups for those accounts that are past due. (It can also help with the collections process.)

A standardized billing practice makes it easier for everyone. Your clients will know what to expect and will be less likely to contest billing, and you'll be able to keep better track of your expenses.

What should an invoice include?

All invoices should include several key elements. The basics include contact information for both

your firm and the client as well as the invoice number for quick referencing. Your law firm's billing codes should also be included. This way you can keep track, at a high level, of which tasks or expenses you are billing to the client.

Billing descriptions will also help with this but at a more granular level. Getting your descriptions right is imperative: they should provide just the right amount of information and be clear to help avoid any client misunderstandings. For your clients who use [LEDES billing](#), it's important to draft time entries carefully and accordingly (e.g., avoid block billing and pay attention to the clerical and paralegal-type tasks performed by an attorney).

The invoice should also include the payment method, the total amount due, and the date by which the client should pay the bill.

Having uniform, thoughtful invoices will ensure consistency and help make sure that your firm gets paid for its good work.

What are some ways to improve billing productivity and get paid faster?

For a moment, think about things from your client's point of view. What would you want and expect from your lawyer?

You'd probably want clarity in billing and consistent billing practice. You can achieve these things by setting expectations early on and having regular, clear communications throughout the client relationship. Standardized billing practices and invoices will help you with this immensely.

If you're using an hourly fee arrangement, the lawyers at your firm should track and enter their time frequently (and ideally daily). As you know, [technology can help with this](#), and it can also help your lawyers draft templates with descriptions of tasks completed and billed.

We also recommend getting bills and reminders of payments out quickly. The sticker shock of a larger bill that accumulates over time may lead to misunderstandings. Regular invoices can keep client billing angst low and help your firm's profitability.

How can legal billing software help automate this process?

Legal billing software can save your lawyers and firm hours upon hours by automating routine tasks. [The right electronic billing software](#) will help your firm generate and approve draft bills by using your firm's preferred template and including all the information necessary to get paid.

Legal billing software can also send automated reminders to clients when payment is due (and overdue) and can generate financial reports regarding paydays to help you better visualize the big picture and stay up to date on [cash flow](#).

Your clients can access a secure billing portal any time they need to view or pay bills, relieving strain on your law firm. The right legal billing software is also customizable to the unique needs of your firm, its various practice areas and billing rates, and clients, and can take into consideration your fee arrangement.

As you're considering potential legal billing platforms, it's important to choose electronic billing

software that meets your firm's needs. This includes steps involved to get onboarded and [what data should be imported into your new legal billing software](#).

Ultimately, the right legal billing software is the one that will help your law firm [automate your billing process](#), be easy to use, and save you time.

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