



What to Charge as an LNC

Cady North

Do you struggle with the financial and logistical aspects of your business? Cady North, financial advisor, provides some practical formulas for setting and increasing your rates, strategic advice for dealing with payment fluctuations, and wisdom about how to avoid burnout. You can benefit immediately from this podcast.

Join us in this episode of *Legal Nurse Podcast*. Cady covers these points:

- Why is it a mistake to focus on revenue alone when you look at your finances?
- How do you figure out what to charge and when and how much to raise your rates over time?
- How can you adjust your financial planning to accommodate the cyclical nature of reimbursement from your clients?
- What is a reasonable profit margin?
- How can you effectively learn to delegate responsibilities?

Patricia: Hi. I'm Pat Iyer, and this is *Legal Nurse Podcast*. Cady North is with me, today, who lives in the beautiful, ever pleasant San Diego, California. And she is a financial advisor. When I met her in a different context, I thought she would be a great person to talk with me, on *Legal Nurse Podcast*, about some of the financial questions that arise when I am working with legal nurse consultants as business owners. Cady, welcome to the show.

Cady: Thanks so much, Pat. I'm thrilled to be here.

Patricia: I know, if you're used to working with small business owners, that you see some common mistakes. What are the ones that come to mind?

Cady: I mean, the number one thing business owners do, just as a nature of balancing so many things, is being very reactive with finances. Some examples of that are, for instance, paying for this year's expenses and taxes with next year's income. That's a very reactive thing. Not being strategic with how or when to pay yourself as a business owner is a

common mistake that I see people making. And I also see people focusing on revenue as a sole metric, as opposed to profitability and take-home pay. And that's ingrained across the board in business. And even when you compare companies on the stock market, you're comparing revenue figures, and it's just it's not the way to look at a business. If you're not profitable, you're not sustainable, you know?

Patricia: Yeah. And I think you're highlighting that people who are experts in their field are not necessarily experts in the financial management of their company.

Cady: Yeah, absolutely. And even if you had finance classes in college, or you took a business degree, you still aren't going to have small business finances as a lesson, just like personal finance isn't taught in schools at any level of education. And so, it's not your fault that you don't know this stuff. You actually have to seek it out unless you happened to have parents, for whatever reason, who taught you some of this stuff.

Patricia: Yeah, if you've come from an entrepreneurial family, or if you have a relative who is an accountant or a financial advisor, it would be ideal.

Cady: Right. Yeah.

Patricia: I know that you must get asked these questions. I get asked these questions all the time. Like, "how do I know how to price my services?" And legal nurse consultants are working with attorneys, primarily, sometimes, they work for governmental agencies, but primarily they work for attorneys. And we have been told over and over again, "You can't discuss your hourly rate because that's price fixing. You can't ask questions. Nobody can give you advice or in a public forum." How do you come up with what would be an appropriate rate?

Cady: I mean, there's a couple of different methods that you can try and sort of experiment with. One would be a bottom-up approach. And you take a look at your capacity. In other words, how many consulting engagements can you do in a month, in a year, and how much time does it take, and associate that with sort of what you'd like to be making from this endeavor. And then you sort of divide one into the other, and that comes up with a pretty decent hourly rate. So that's a

bottom-up approach. It doesn't take into account the value you provide, the impact you're making, but it is a good way as a starting point to figure out what this might cost.

Another thing you can do, the more top-down approach, is to start from the first question of, what would I like to make? You need to add tax, you need to add in the things that you have to purchase to do these consulting engagements, and then you figure out from there, what you'd have to charge or how many of these engagements you'd have to have in order to make this target revenue or this target salary for yourself. And that's more of a top-down approach. And sometimes, you approach it from both angles to end up arriving at a spot that that works.

But for most people who are in a service-based profession like this, where you're using your own expertise to get paid for the time that you spend consulting, the idea is that you start at a rate and you will continue improving that rate or growing your hourly rate based on how efficient you can get. And a mistake that I see business owners making is not increasing their cost the more efficient they get. So, they end up having this hourly rate, and they can do much more in one hour than when they first started out but they're not getting paid any more for that hour, even though they're delivering much more value to the client.

Patricia: I had never thought of it that way. When I ran a legal nurse consulting business, I would increase the rates by \$25 an hour every couple of years, until 2008/2009 came, and then I was very concerned about increasing rates. So, I went for a period of five years without increasing the rates. And then I couldn't jump up beyond that \$25 an hour because I had established that pattern in my customers' minds. I know that the frequency of raising rates is a concern. What advice would you give now, we're in almost at the very end of 2020. How do you feel about companies increasing rates come January?

Cady: I think it depends a lot on the business that you're in. There are some businesses that have thrived and have even created new cottage industries as a result of the pandemic, and other businesses that are really struggling. And so, you do have to take the temperature of where you're at in the playing field to find out whether raising your rates makes sense. But absent some sort of extraneous circumstance,

you should always, no matter what, try to raise your rates, at least with inflation because, at the very least, you need to be getting compensated the same amount that you're getting compensated last year, adjusted for inflation.

Patricia: Yeah, that's a good point. The other issue that, I think, plagues people is that they are, when they're inexperienced, they're desperate to get work. They want to be able to prove that they can help attorneys. And they reason, "Well, if I set my rates low, that will make me attractive to the client and, therefore, I will get more work, or I'll get my foot in the door." Do you have a reaction to that strategy?

Cady: Yes, you will get more people in the door, but it's going to be very challenging for you to eventually raise rates so that you're getting paid a market rate in the future. What you'll find is that, for existing clients, it's going to be hard to even get a \$25 or \$50 increase in there, because you started at such a low rate. And really, when you take a look at it, you should probably be increasing it \$50, \$100.

And so, you'll find that the only way you get paid more is through new customers, and that creates this busy-ness cycle of constantly needing to get new business, constantly wringing your hair out having some clients that are "easy to work with" and others that are not so easy to work with, but the pay discrepancy doesn't reflect any of that. And so, I would argue very strongly for you to do more of this research and think about your pricing very carefully. Because it is hard, as you said, to raise rates on people.

And unless you set that expectation upfront by saying something like, "I'm getting started in this and I want you to know that I'm giving you a really good deal. But assuming we like each other, and we enjoy working together, the expectation is that I'm going to be raising your rate next year to a more market rate, which is along these lines." And so, if you're setting expectations in advance on that, that's going to really work in your favor, because it means the people you work with are going to be expecting that.

Patricia: I have a membership program called *LNC Success Connection*. And I shared with them the other night, when we were talking about finances, about how when I first became unemployable, I quit my job, I became an entrepreneur. I started doing consulting with a hospital I

had been working with for seven years. And I set my hourly rate at \$40 an hour. And this was in 1988. And I knew it was below market rate at that time, but I wanted to get the work, I wanted to transition from being an employee to being self-employed. And at the end of the year, when I realized how low I had quoted, I went back to the client, my previous employer hospital, and said my new rate will be X. And I don't remember what I said I was going to raise it to. And they said, "No, Pat. We're happy with paying \$40 an hour. We're not going to pay more." I said, "Crap."

I was inexperienced enough to not realize that I was the one who set the rates, and I was also afraid that they would stop using me. And that was a steady source of income that I had, so I gave in. But I should have created a rate that was significantly higher, just to begin with, because it was impossible after I established my low value that I was assigning to my own work.

Cady: For sure, yeah. I mean, one of the things you'll have to get used to as well with setting up an appropriate market rate is people will say no to you. And I always tell my clients, if maybe 50% of the people that you work with are saying no to you, or aren't saying no to you, then your prices are too low. That's an indicator you should increase your prices, because you should not be in a situation where 100% of people are like, "Yes, I want to work with you." That's a danger zone. Yeah.

Patricia: I had a psychiatric nurse practitioner friend of mine said that if when you quote your rates 75% of people do not clutch their chest and fall off their chair and have a cardiac arrest, then you're quoting at the right level.

Cady: Yeah, I like that.

Patricia: A different way of saying the same thing.

Cady: Yeah.

Patricia: One of the challenges that legal nurse consultants get into is that if they work with plaintiff attorneys, small plaintiff attorneys, in particular, are often waiting for the next settlement check to come in. And they are, in the meantime, trying to convince all of the people they owe money to to just be patient. On the defense side, the insurance companies compensate the defense firms, and the defense

firms either issue checks directly to the nurse, or the insurance company issues the check directly.

One of the issues I ran into consistently was that the insurance companies would pay their bills every quarter. So, depending upon when you submitted your invoice, if you submitted an invoice in January, you could wait until April to get paid. The subcontractors who worked for my firm wanted to be paid as fast as possible, as did I. And it was my policy not to pay them until I had been paid. So, between the plaintiff attorneys and the defense attorneys, there's this uneven flow of cash. Are there any strategies that we can use to help work with that?

Cady: Yeah, a couple of things. The first thing is to set up some financial buffers. So, after you've been doing this for a little while, there will be a theme to the revenue, even if it seems uneven or out of sync, timing-wise, invoicing versus getting paid. There will be some cyclicity, some trends that you notice. And so, you can start to, over the course of a year, plan out, "Okay, how much buffer do I need to keep this quarter because, typically, I may be waiting for that one big check and it's going to take four months, but I'm going to have these other expenses that I need to take care of."

That's going to be a good way to build up an operational buffer that you can utilize when a check doesn't come in on time, or you get less than you thought because your invoice made it a day late than it needed to be. Or, true story, I had a client accidentally pay their tax bill twice in one quarter, which created a huge cash crunch. And so, having some of these financial buffers, saving up a little, not paying yourself or your contractors out 100% of profits, keeping a little behind to save up a buffer is a really useful way to think about just managing your money.

But you also need to give every dollar a job. Every dollar that you receive in profit is not going to be 100% usable to you as a salary or you as you pay your subcontractors. You do have to plan ahead for taxes. You do have to plan ahead for operational expenses, just office stuff that you need to buy throughout the year, or travel. And so, a lot of business owners will make this mistake of like they get the check, it's this big dollar and they're super-excited. That means they can pay themselves, finally. But you can't pay yourself 100% of that, you've

got to retain 30% of your profit to be set aside for tax off the top. And probably another 25% of it, you need to be thinking about saving for your future self, like through retirement, because that's a good tax planning strategy that any CPA is going to offer you. And so, if you're not setting aside that throughout the year, it's going to create a huge cash crunch during tax time.

Patricia: Absolutely. Now, if you pay your tax bill twice, does that mean you can get a refund from the duplicate payment or do they just hold on to it?

Cady: Well, you can eventually get a refund when you file your taxes. But it's impossible to ask for the IRS to send your money back if you accidentally send it twice in one quarter. So, if you happen to do that in, say, April, the first tax payment, you're going to be waiting almost a year to get that extra money back.

Patricia: That's tragic.

Cady: Yeah, it's frustrating.

Patricia: You mentioned profit margin. What do you think is a reasonable profit margin?

Cady: For service-based businesses like a legal nurse, I would say that your profitability should be really high, 50%, at least, but I would be targeting and looking at your numbers to see if we could get it closer to 60% or 70%, because there really isn't a lot of overhead with that sort of consulting. And so, you should be able to keep your expenses very low. And I like to flip the common formula on a tad, like most people think revenue minus expenses equals your profit. I like to say, no, let's set our profit first. So, revenue minus your target profit equals the amount of money that you can spend on expenses, on continuing education, on office products, on travel, on meals. So, it kind of gives you a cap. You're approaching this from what you want to have as your profitability, first, and then that dictates what you can spend.

Patricia: Yes. I'm thinking about a woman who served as one of my subcontractors. And we had a hard time negotiating with her in terms of what she would accept as an hourly rate, because we billed for the services of our experts. And she had criteria that she wanted, like she wanted to travel first class, and she wanted 20 hours of retainer. And

we placed her on a case where she was absolutely the right person, qualifications-wise, to be on this case, considering who was on the other side. The attorney was happy with her. She did what he needed her to do.

And then she came back to me and said, “You know, I'm just not going to accept that hourly rate that you quoted me.” And at the time, we were quoting \$250 an hour. She said, “What I want is \$225 an hour, and you can keep the \$25 an hour.” And that was at a time when we were in, typically, keeping 50% of the hourly rate to cover our overhead, and the employees, and the insurance, and the benefits, and all of that. And I did not accept her offer. I felt like, in my family, we talk about getting your Irish up. My back got real straight, and I thought, “No, I don't think we're going to accept that determination by you.” My point is that you, as the business owner, can encounter people who will tell you what they want, and it's up to you to know what your overhead is, your profit margin, all of those things that go into establishing that hourly rate.

Cady: Yeah, absolutely.

Patricia: Tell us a little bit more about some of the strategies for sustainability. We talked about uneven cash flow, we talked about putting some money aside, we talked about charging a fair market rate based on your expenses and your overhead. Are there some other things that we should be paying attention to?

Cady: Yeah. I mean, there's all sorts of non-financial aspects but just as important as financial sort of mindset that you need to think about when it comes to having a sustainable business. And I always am advocating for my clients to think about, what is it that nourishes you in your business? Why do you do this? What's the purpose? And is it time off? Is it praise from clients? Is that the impact you're making? Is it the work that you do? Whatever it looks like, figure out ways to set up a tracker to track those kinds of metrics, in addition to the obvious of profitability, and your hourly rate, and your repayment rate. Those are important, those kinds of financial metrics are extremely important for making sure you have a sustainable business, but you're not going to be able to serve anyone if you put yourself in a burned-out position, and you're not being re-nourished by this business.

So, that is going to look different for everyone, what nourishes them, but for me, in my own business, I monitor days off per year. I monitor and I keep a little file of praise quotes from clients. And that's something I can look back on and say, "Oh, you know what, I'm feeling down about myself, but these people actually really like me." I think it's just as important to think through some of those things.

Patricia: Those are great points, Cady. I think the temptation for people in our field, and maybe for many entrepreneurs is to keep working and working and working, because we like what we're doing. But then we realize, like I do, that I sit in front of the computer from 9:00 in the morning until 10:00 at night, and maybe I take a walk if the weather is good, and there's time out for meals. But essentially, I keep myself locked in front of my computer. I've talked to legal nurse consultants, and maybe this is something that you can address from business strategy, but they say, "Nobody does the work as well as I do. And nobody's going to take care of my clients as well as I can. So, therefore, I can't share any of this work. I can't subcontract it, because it might not come back the way I want it to. So, I'll just work all the time. That's a solution."

Cady: Yeah. I mean, I can relate to that myself as a recovering perfectionist, it's hard to ask for help. But I would say one thing that I often offer to clients as some advice on this is to make sure that you are writing down business processes as you go. And you can even hire someone to work with you specifically for the purpose of writing down your business processes. So, as they are learning it, as you're bringing someone new on to help you out, you're having them, their primary job is to write down what the process is. So that way, what you're doing is repeatable.

It doesn't reflect poorly on you that you have to outsource, it actually reflects very positively that you're able to delegate in a way that gets the job done. And yes, it's true that nobody's going to do the job exactly like you do, but we do have to let some of this stuff go because it will eat us up. And like I said before, if you are burning yourself out, you're not going to be able to help anyone. I mean, you're just going to be stuck in a corner somewhere frustrated, or depressed, or anxious, or all of those things. So, it is important to keep that in mind of like, okay, how do I keep myself in a healthy place so that I can continue doing this work in a sustainable way.

Patricia: I had a bookkeeper who always gave me a hard time when I said, “You know we need policies and procedures on how you're creating invoices, and how you're following up on collections.” And she would say, “Well, Pat, do you want the work done or do you want me to write down what I'm doing?” And I think she was threatened underneath, the idea that I was asking her to document what she was doing, because then I could replace her.

Cady: Yeah.

Patricia: She ended up resigning at the worst possible time in my business, when my husband was going in for open heart surgery and my accountant had hired my employee to become her own employee. So, in one fell swoop, we lost the bookkeeper, we lost the accountant, and my husband, who was the backup system. He did get through surgery. But in the last two weeks that my bookkeeper worked with me, I said, “All right, this is your focus this week. You're going to document every step in this process, because somebody is going to have to walk in this door and take this job over.” She did. But it was like at the eleventh-and-a-half hour that I, finally, got from her those written policies and procedures, when she had already submitted her resignation.

It would have saved me a lot of anxiety if I had just, in hindsight, said, “You know what, I want you to spend this time,” prior to when she put in her resignation, “I want you to do a little bit each week, and I'll check it and make sure that I understand it.” But there was this big fence around the topic. If I got anywhere near it, she would roll her eyes and tell me how that was always going to be so time-consuming and impossible. And I let her get away with it, that was my downfall as a manager.

Cady: Yeah, yeah. But I mean, presumably, you learn from that, too, and you're able to take it and do it differently next time.

Patricia: Should I ever hire another bookkeeper, yes. Well, we talked about quite a bit. Let me think about what I would like to ask you in our final couple of minutes. What tips could you offer based on what you see small business owners do? And I know you started off by talking about not paying yourself consistently. Are there any other strategies

that you feel like if you're running a small business, you absolutely must do this?

Cady: I think automation is always a very worthwhile investment in time and energy. And even in the past few years, there's a whole new suite of sorts of automation tools, that you don't need to know how to code but you can suddenly make apps talk to one another and do things in the background. Investing some time in things like that, so that anything you have to do that's repeatable can be done by a machine instead of a person is a really good use of time. Because the time you spend on that the once will then end up saving you all of this repeated time throughout your weeks and your months.

So, if I was looking at necessary expenditures in a year, I would place automation tools as a very high priority, as opposed to hiring full-time staff. I mean, I think that's been a huge tool for me, in my own business, and how I see other people finding success, is you can avoid the cost of an administrative assistant simply by developing some of these automation tools like Zapier, or *If This Then That*. They're great uses of time and energy and money.

Patricia: You know, I have heard about *If This Then That* for years, and I thought, “Well, that sounds like that would really be efficient.” I have not ever moved from hearing about it to actually using it. In fact, some people call it ITTT, in a very familiar way, like it's their best friend. And I'm thinking, “I know what that stands for, but I've never used it.” Can you explain how you would use that within the financial world that we're talking about?

Cady: Well, I mean, something that's ubiquitous is managing your calendar. So, I have a lot of Zapiers, we call them zaps for short, set up so that when someone schedules a meeting with me for financial planning, it automatically schedules prep time in my calendar, and post-kind-of-taking-notes time, as well as follow-up time. I'm a big time boxer, as opposed to a to-do list person. And so, that is a great tool for me, because I don't need an assistant managing my calendar, it's all automated in the background and I'm not doing any back-and-forth stuff. And that automatically holds the space so that another client can't come on and just automatically schedule something the day before a big event with another client, it's already kind of prepped and settled. So that's a really important use case for me.

Patricia: Interesting. I had never thought about that. I tend to schedule my appointments an hour and 15 minutes apart, with the understanding it's probably not ever going to go beyond an hour, and 15 minutes gives me a chance to follow up. But I'm, of course, doing that manually when I set up my calendar, which allows people to book time with me.

Cady: Yeah, yeah. You could set up a zap and it'd save you all that time managing your calendar.

Patricia: Yeah. Very nice. How can listeners find out more about you, Cady, and the services that you offer?

Cady: My website is northfinancialadvisors.com. And I have a blog there that has lots of good information that you can subscribe to that talks a lot about these topics in personal finance. And so, that'd be a great way to stay in touch with me.

Patricia: All right, sounds great. I appreciate the chance to speak with you and to get these insights. I know we could probably talk for at least another hour about these topics. And it's great that you've got, I'll tell you, Cady, there's not always a combination of financial knowledge and communication skills in the same brain, and you have integrated those beautifully.

Cady: Thank you, Pat.

Patricia: Thank you for being on the show.

Cady: Yeah. Thanks for having me.

Patricia: And thank you to you who's been listening or watching this on our Legal Nurse Business YouTube channel. Be sure to subscribe to the channel so that you get notified of new updates. We update through brief videos as well as every one of our podcasts is done in video form and gets loaded onto the channel. And you'll know when we've got a new episode coming out. Thanks so much.

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