BUSINESS AND FINANCIAL MANAGEMENT

Wrangling the Wild Ride

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YEAR END COLLECTION TIPS

FOR FIRMS BIG AND SMALL

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The importance of the year-end collection push at many law firms cannot be minimized. You could probably go from one mid-to-large-size law firm to another throughout the country and find one thing they all have in common from a revenue standpoint — they all collect 25 to 40 percent of their annual revenue in the last quarter of their fiscal year. At some firms, it is common to collect 20 to 25 percent of their yearly revenue in the last month alone. The last few months at these firms is often a nail-biting, stomach-churning experience for firm management and equity partners, in which they hope it all comes together. Here are 10 tips that should help firms meet and hopefully exceed year-end collection targets.

1. PLAN FAR ENOUGH AHEAD OF THE ACTUAL ONSET OF YOUR PUSH.

Be sure to look at the calendar and understand the working time that is available. Start to evaluate a month or two before the actual start of the push. Consider not only your firm's schedule, but also that of your clients. In many cases, there might be various conflicts that could affect your ability to maximize collections. Holidays and shut down periods are just a couple of the most common conflicts.

If you are not reviewing significant client balances, larger transactional matters, clients on payment plans or contingent fee matters regularly, you should take some time to become familiar with them and their statuses. Are there short-pays, small residual balances that are insignificant or negotiated balances included in the inventory that could or should be written off? If it is not obvious after reviewing those items, it might be wise to run a report and see if there is a reason to keep them open or just clear them out. Overall, understand the dynamics of your inventory, work in progress and A/R. How healthy are they? Is there value there, and do you anticipate they will be collected? Unbilled time that has no prospect of ever being billed should be written off. Longstanding balances with little to no hope of being collected by year-end should be written off or referred to collections. Unapplied credits should be applied toward balances where possible. In essence, you are conducting a clean up.

A significant component of your plan is to ensure timekeepers have their time entered, posted and up to date before the push commences. If time is missing for a client matter, this could result in a delay in billing. If billing is delayed, collections may be as well. The key is to maximize billings — particularly in the months immediately prior to the push — in order to optimize collections.

2. ESTABLISH A GOAL ALONG WITH AN ORGANIZED AND CLEAR SCHEDULE.

This is a multifaceted step. It takes good communication skills and a good structure to manage. Look at the resources you have available and set thresholds along with a plan for each area. Consider what inventory is available and establish reasonably attainable goals based on health, historical results and current year trends. Goals can be set at the firm, practice, regional and personal levels. Consider a tangible way to measure and report easily on progress or lack thereof.

Set hard deadlines for things like time entry, costs entry, billing and collection points for review along the way. Make and publish a schedule that is easily accessible and depicts when each task is due. This should be communicated to each person who has a responsibility. It might look different for an attorney vs. professional staff, but the information should define a task, a due date and contact points should extraordinary situations arise. Once established, communicated and underway, be sure to send reminders at reasonable intervals.

3. REALIZE THE REAL GOAL OF THE YEAR-END.

What is the actual goal of the year-end collection push? If you answered, “to bill and collect as much as possible by the last day,” you are only partially correct. The actual goal is to manage the inventory and the business *relationships* in a manner that results in the best possible revenue position by the end of the fiscal year. Sometimes a payment for payment’s sake, just because it happens in this certain time frame, might not be in the best interest of the firm and the client relationship. In the legal industry, clients pay close attention to what law firms do and what they don’t do. For example, not following up regarding payment as soon as it is past due could lead to unwanted behavior by clients. Waiting sends the message that the firm is not concerned about getting paid in a timely manner, despite the firm’s official payment terms. Even more disheartening is offering a discount to a client who has a larger outstanding balance to encourage payment by year-end. If done too frequently, it establishes a precedence which can lead to unhealthy behaviors. Tread carefully here — your actions could negatively affect future client behavior.

4. CREATE A SENSE OF URGENCY.

During the push, things should not be business as usual, and no one in the firm should be under the illusion that it is. At this time of year, the firm should ask everyone to step up to the plate and bring their “A game” to the table. Communicating the message in many different venues — in one-on-one meetings as well as meetings for partners, departments and practice groups, in telephone calls and via email — helps create a sense of urgency. A flurry of activity by billing and collection staff, using working days instead of calendar days remaining before year-end, encouraging expedited payment options, and persistent follow up with billing attorneys and clients are all effective tools to further a sense of urgency. Complacency and failure to abide by firm policies that affect time entry, billing and collections should not be tolerated. Those policies should be enforced, and individuals who fail to comply with those policies need to be addressed.

5. PROVIDE YOUR ATTORNEYS WITH ALL THE TOOLS AND RESOURCES THEY NEED TO SUCCEED.

Throughout the push, reporting is critical. Early on, billing attorneys should receive reports of their progress weekly, preferably Monday mornings during working hours. As the push progresses, and certainly within the last two weeks of the fiscal year-end, reports of their progress should be distributed daily. At minimum, the reports should include current A/R with an aging table, unapplied credits, amount in trust, commitment amount, committed amount collected, remaining amount to collect, and last payment amount and date. Reports should be available at the client, matter and invoice levels. Some firms use graphs to enhance progress reports while others use images that show levels. The more flexible and creative the reports, the more interest they receive. Interest spurs action — and action spurs results.

Copies of invoices and reminder statements should be provided quickly upon request and in the form desired (hard copy or PDF). A turnaround time of two hours or less should be the objective.

6. APPRECIATE THAT ALL YOUR RECEIVABLES MATTER DURING THE PUSH, NOT JUST THE BIG ONES.

Focusing on the larger receivables makes the most sense for a successful push. However, you cannot forget about the smaller receivables either. This is where the work really comes into play; oftentimes the larger receivables do not demand as much effort or attention. If those large receivables don't come in for one reason or another, it is the collection of all the little receivables that will make the firm's year. If the larger receivables do come in, the collection of the smaller receivables will be gravy for what should already be a very good year.

7. MAKE IT EASY FOR YOUR CLIENTS TO PAY YOU BEFORE YEAR-END.

Payment instructions should be available on every invoice or statement you send a client. Your clients should have the ability to pay via all major credit cards and by electronic check (ACH) online. When an invoice or statement is emailed to a client, make sure a hyperlink to your payment website is included. The firm's mailing address should be in the correct mailing format on the invoice or statement of account. Keep in mind that including the building name in lieu of the actual street address might lead to delays in mailing. Consider enclosing a self-addressed envelope for payment with your invoice. Be sure to have an updated W-9 form readily available, particularly for new clients, and consider providing it whether the client asks for it or not.

Confidence in the Call

To ensure more comfort in the collections process, some firms have a standard call dialog established to help those who might not normally be involved in billing or collection activities. The key is to keep things short and simple, and to gather the six Ws:

- **Who?** Who will be doing the activity or task?
- **What?** What is the task or goal?
- **Where?** Where will this task take place? Is it managed in one location or several?
- **When?** What is the timing of this task? How long will it take? Is there a final deadline?
- **Why?** Why is this task receiving extra attention? It pays to have a standard response that everyone can use.
- **How?** How will this collection be made? Will it be by phone, email, mail or express mail?

8. TAKE ALL NECESSARY MEASURES TO RECEIVE PAYMENT ON TIME

Most law firms' fiscal years coincide with the calendar year. Unfortunately, many business clients have payment cut-off dates well in advance of December 31st due to the holiday season. It is important for you to be aware of these deadlines and to make every effort to obtain approval of your invoices and have them submitted for payment well in advance of these deadlines. Some of your client contacts will likely be taking time off during the holidays as well. Determine when they will be leaving for vacation and when they expect to be back. If you haven't updated their mobile telephone number in a while, now is the time to do so.

After a certain point in December, trusting the United States Postal Service to get a check delivered prior to December 31st is leaving things to chance, to say the least. In early December, make sure you communicate to billing attorneys, their secretaries and clients all expedited payment options at their disposal at this time of year. Among other things, these should include wire, ACH, FedEx, UPS, online payment options and messenger pickup. Provide clients with pre-addressed FedEx or UPS labels, firm account numbers and hyperlinks for online payment options. When appropriate, we promote a "drive-by" payment option. In order to avoid our clients having to look and pay for parking, we'll meet them outside our building as they drive by to drop off a check. You might think that's unusual, but it works and is appreciated by clients.

Make sure billing attorneys and clients know that a payment received after December 31st does not help the firm this fiscal year. The goal should be for no payments to be received on January 2nd.

9. PUT THE "P" IN PUSH.

"Push" means firm management and its collection staff are asking billing attorneys to press their clients for payment. It means asking clients to pay more than they ordinarily would or to speed up their payment cycle. Most clients, when asked to help, will do their best to accommodate those requests. It is the rare occasion when a client does not want to help. But some attorneys are reluctant to push their clients for payment. They hope payment will come in by year-end but are hesitant to follow up with their clients regarding payment. If this was the approach for most of the attorneys in a firm, that firm's budget and collection goals might never be reached.

One approach for reluctant attorneys is to convey to them that we only do this one time a year. Another approach is to indicate that the invoice falls outside the client's typical payment parameters. As an example, the client typically pays within 30 days, but the open invoice is 60 days past due. And yet another approach to prompt the attorney to follow up on a payment is to tell them that by any reasonable standard (including the firm's own policy), the client's invoices are seriously past due and should be paid. If all else fails, ask if the collection staff can follow up regarding payment.

10. UTILIZE YOUR VILLAGE (IT SURE TAKES ONE).

The success of the push relies on many different individuals, not any one person. It is a team effort and includes everyone from the chief operating officer to your messengers — all play key roles. With respect to administrators and professional staff, they need to be aware of what the push is and its importance to the firm. Furthermore, their particular roles should be defined and communicated to them. Frequently, they look forward to and appreciate being a part of a larger firmwide effort. The role of legal secretaries or assistants in the push cannot be overlooked because of their frequent interaction with clients and billing attorneys.

FINAL TIPS

Some final thoughts to keep in mind as you consider your year-end processes: One size does not fit all. Larger firms and smaller firms struggle with a lot of the same issues, which is why the roadmap is similar — but what works well for your firm depends on its culture, the level of support and the resources available. The size of the law firm, surprisingly, is not the most critical component in the plan. The key to success, particularly in the long haul, is the ability to take time to comprehend the nuances in your firm, the ability to evaluate your success and the flexibility to manage change as necessary. While this does not guarantee hitting the target 100 percent of the time, your preparedness and flexibility will usually overcome any drastic surprises and help you meet or exceed your year-end goals.

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