

LEGAL MANAGEMENT

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COLLECTION CURES

**Does your law firm struggle with collections?
Understand the critical steps to ensure clients pay
their bills and avoid unnecessary delinquencies.**

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Wouldn't it be great if all you had to do was provide quality legal work, send a bill and then collect your receivable within 30 days of billing? Unfortunately, it doesn't happen that way. Slow-paying clients are the norm and the consequences are more costly than the obvious problem of slow cash flow. Slow-paying accounts are time-consuming, increase debt, produce stress, hurt morale and, can actually dull the desire to bring in new clients. All collection effort is a drain on resources, so it's a good idea to have effective procedures and smart strategies so you will be paid promptly for the services you provide.

SHORTCUT

Clients don't pay bills for many reasons, including worries about cash flow, questions about bills' accuracy and dissatisfaction with the quality of firms' work. Legal administrators and law firm managers can follow several steps to collect money from clients and avoid problems with delinquencies.

HOW TO COLLECT

Clients don't pay bills for many reasons, their accuracy, worries about cash flow, and dissatisfaction with the quality of firms' work. Legal administrators and law firm managers can consider several steps to collect money from clients.

Maintain a current list of delinquent receivables. You can't initiate a collection effort if you are not aware of which clients you need to contact. Create a list of delinquent accounts at the end of each month and distribute it to each partner and to the collection manager

Put one person in charge. Lawyers, even partners, often need some prodding and follow-up to make collection calls. To make sure it happens, every law firm needs one person responsible for managing all collections. It is the collection manager's responsibility to communicate with each partner, help plan the course of action and report regularly to the management committee.

Give each account individual attention. Although certain universal principles apply to all collection efforts, clients are individuals, and collection efforts must take into account their differences. A small, occasional client who owes a large balance warrants different treatment from that given to a large, regular client with a small balance due. Personal relationships also influence how much leeway a slow-paying client should be given. Moreover, different clients have different cash flow issues. So while some standard practices are important, uniform practices don't always work, especially perfunctory gestures such as sending out standard collection letters at fixed intervals.

Dismiss the collector caricature. The caricature of a collector is a sleazy person who uses high-pressure tactics

that sometimes include threats or guilt. The concern that you will be seen as (or feel like) the caricature of a collector can prevent you from making the call you need to make. Your concerns is valid; coming on too strong alienates clients. Your goals are to collect what is owed and keep good clients. An effective strategy for collection has two components: helping honorable clients deal with the issues that are creating delinquency, and quickly identifying those who intend to take advantage of you and your firm.

Come to terms with the fear of losing a client. Because it is difficult to get new clients, it is common to delay a collection effort for fear of alienating a good one. Of course, all good clients understand their obligations, sympathize with your need to collect and try to honor their commitments. A respectful and supportive collection effort alienates only bad clients. And while losing any client is painful, losing the bad ones is in your best interest.

Match levels of authority. Collection calls made by your firm's support staff should be directed only to the client's support staff. In cases where an executive or owner needs to be called, a partner must do it. While some lawyers may want to avoid negative interaction with the client and prefer to delegate it to someone else, communicating peer-to-peer shows respect for the client.

Find out what is causing the delay. Identify the reasons behind your client's behavior, and then decide how to proceed. When a bill is 30 days delinquent, call your client and say, "I'm calling because we haven't received payment of your outstanding bill, and I wanted to make sure that you received the bill." Then wait for a response. Start with the assumption that clients have valid reasons for not paying. Their answers will guide you to other questions. All the

while, consider whether your firm's clients are forthcoming or evasive. Evasiveness reveals intent to take advantage of the firm. Other questions could include, "Is everything ok?" and "When can I expect payment?"

Call rather than write. Sending a collection letter may do the job, but a phone call is better. Phone calls are faster and give you immediate feedback. Hearing a person's voice will help you determine how sincere a client is about paying your firm's bill.

When the client has limited cash, empathize. This is the time for you as a representative or your firm to demonstrate empathy. Financial difficulties are emotional burdens, and when a clients can't pay the bills, it is as much an attack on their egos as it is on their checkbooks. Make it clear that you want to help. Then, ask about the problem. The answers to your questions will help you determine how to proceed.

Respond to unhappy clients. Some clients may be justifiably unhappy with your firm's service or the bill. If a client responds with a complaint, determine its validity and then apologize and make amends. If the complaint is not valid, try to educate the client accordingly. If education fails, you may be facing a client who wants to take advantage of you and is feigning dissatisfaction to disarm you.

Negotiate specific deadlines. When a client promises to pay you in full or in part, be sure you negotiate precise deadlines. Vague promises -such as, "I'll send you something as soon as I can" allow more time for dishonorable clients to take advantage of you and your firm. If you can't get a specific commitment, negotiate a follow-up appointment to discuss the next step.

Document your efforts. Keep accurate records of your conversations. Document what the client says and what you say. Having all the facts available will give you the upper and in further negotiations.

Stay on top of the process. Don't delay taking action on problem accounts. Your delay in confronting the problem allows a client to do the same. The sooner you act, the sooner you will learn why a client is not paying, and the sooner you can discuss solutions. For example, if a client is having financial problems, you can work out a payment amount and schedule. If you don't act promptly, you may find yourself at the end of a long line of creditors.

HOW TO AVOID DELINQUENCY

Of course, it is better for your firm to avoid client delinquency situations. Take several steps to put your firm in a position to minimize delinquencies.

Quote your fees and terms clearly. Clients want to know what and how the firm is going to charge. Don't wait for them to ask. Explain the whole package. How much is the retainer? How does the firm charge against it? Is any part refundable? What is the hourly rate? If a flat fee is charged, what does and does it not include? Is your minimum billing unit one-tenth of an hour, one-fifth, one-quarter or something else? Also provide a clear statement at the start of the relationship articulating that the firm expects prompt payment.

Collect and refresh appropriate retainers. Collecting a retainer fee and holding part or all of it against the final bill can be useful. If less is applied to current fees, you find out sooner if the client is going to pay its bills. And you may have enough to bring yourself current if you have to withdraw for non payment.

Send your bills out promptly. Your firms' bills should go out on time. Prompt billing gets your bill into the client's list of payables sooner and, therefore, gets paid earlier in the bill-paying cycle. Also, the larger the bill, the higher the probability of slow payment. Billing promptly at the end of each month keeps each bill to a manageable size. It also lets clients know what you are doing for them and allows any

problems to be raised while the facts are still fresh. Having to remind lawyers to complete their time sheets at the end of each billing period further delays billing, so make sure that every lawyer records an reports time no later than the end of each day.

Provide detail. Clients often complain that bills inadequately describe the services performed. Sketchy information may trigger an inquiry and result in delay. Detailed bills remind clients of the benefits they received and put them in better frames of mind to pay for those services.

Notify clients of unusual expenses prior to invoicing.

Clients don't like surprises. When you notice that a client needs more services than usual, it is a good idea to notify the client of the extra work and the projected extra costs. And before an usually large bill goes out, a call to the client may be in order. With advance warning, a larger-than-usual bill is less of a shock.

Fire bad clients. When a client is consistently slow to pay, you must decide if the benefits of keeping the client are worth the costs to the firm. If not, let the client know that the account must be brought current and kept current or your firm will no longer provide services.

Raise your standards. One of the best ways to minimize collection problems is to set higher standards for new clients. Evaluate whether a prospect can afford to pay the firm's fees for the services needed. Also consider the likelihood of recurring business. Establishing higher standards will motivate your marketing effort and will result in a mores profitable, less stressful practice.

Conduct client satisfaction surveys. As simple as it sounds, many lawyers are not inclined to do such surveys. Some are afraid of what they might learn, and others may believe that clients who don't complain must be satisfied. But when clients are not satisfied, they don't always express their

dissatisfaction. By the time their accounts become delinquent, they may be courting other counsel. Surveys give you and your firm an opportunity to catch a problem before it gets out of control. Also, when clients see that their lawyers are truly concerned about the quality of their relationships, they may demonstrate their appreciation by making a greater effort to pay promptly.

TAKING CHARGE AND GETTING PAID

Everyone in a law firm – including legal administrators, lawyers and support staff – must establish sensible and effective procedures if they expect clients to pay the firm for its work. And, in turn, those procedures must be followed scrupulously. Follow these best practices to ensure clients pay your firm promptly for the superior service it provides. §

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