Improving the annual year-end collection push

By Keith Cameron

There is an annual ritual in many law firms. Its genesis is at the intersection of two divergent trends, which occur every year: 1) the firm’s net income (a.k.a., partner compensation) has been much less than expected; and 2) the firm’s aged accounts receivable (A/R) has increased much more than expected. The two, of course, are directly connected. It happens every year, but when partners become aware it’s occurring, they quickly focus on reversing the direction of those trends before the year ends. And thus begins the effort to avert a “bad year,” which sends partners and staff scrambling toward the old reliable solution: the year-end rush to increase fee collections. Does this sound familiar?

The additional and temporary collection efforts for most firms result in an uptick in collections for the final months of the year. This brings some satisfaction to most partners and the gratifying sense that “we did what we could.”

In this article, I will describe two key improvements to the procedure that most firms follow in regard to their year-end collection push. Both present the opportunity to significantly increase the amount your firm collects by year-end.

First improvement – start early enough

Most firms begin the collection push too late in the year, leaving insufficient time for their efforts to materially increase the fee collections. Instead of beginning around Thanksgiving, all billing partners should begin at the start of October. Beginning does not mean beginning to discuss the idea and sending a report or two. It means relevant actions! Why October? Because the problem isn’t just those delinquent A/R; it’s also the aged unbilled time you have accumulated. With the October billing cycle, push your partners to bill EVERYTHING and bill before mid-month. Get them to stop holding any time over 30 days and bill it. This creates two promising results: the A/R will be larger and more representative of the uncollected work you’ve done in the current year; and it sets the stage for all the work to be included in the collection discussions with your clients. Realistically, October billing is your final opportunity to bill fees you expect to collect in the current calendar year.

Second improvement – embrace a disciplined procedure

Instead of suggesting what all partners should generally do, such as, “Please call your clients who have larger A/R,” create the imperative with a disciplined procedure to hold every partner accountable. If you’re serious about significantly increasing the payments over two months, the procedure must hold all partners accountable for weekly and specific actions to contact clients, particularly those with larger and older unpaid bills. A casual process which leaves partners with an initial list and on their own for this unpleasant task will fall far short of what you could achieve. Don’t make the mistake of underestimating how little most partners will do on their own in the brief time to collect from their clients. The outline for a more disciplined procedure follows:

- Prioritize to establish clear objectives (which clients, which bills, how much is overdue). Consider that every client with $1,000 A/R takes as much time – and sometimes more time – to contact for payment as a client with $30,000 A/R. So, on which clients should you spend your limited time? Set an objective for each billing attorney, such as the top 10 clients with the most A/R for each billing attorney, or top 20? You decide, and then present that list of clients to each billing attorney.
- Emphasize immediate action and a sense of urgency. Each billing attorney’s responsibility is to contact two to three different clients every week with the intent of collecting in the current year on their bills. The target should be to contact all 10 of their clients before Thanksgiving. It is seldom that a client gets a call on a delinquent bill and writes a check that day; the action by a willing client takes at least several weeks until you receive payment. The time between Thanksgiving and year-end will be for the billing attorney to follow up on the promised payments and contact the clients who weren’t available on the initial calls. Remember, “holiday time” for your clients tends to extend from Thanksgiving through the first week of January, so all activities, like paying bills, move more slowly.
- Track payments by prioritized clients. Your accounting department (or a central person) must track payments by the prioritized clients every week and list each payment next to
those clients’ A/R, preferably on a spreadsheet. By seeing the receipts, you will be able to compare the total collected to the original A/R for each client. It also serves to keep the billing attorneys informed of their progress and whether their clients who committed to pay actually pay.

- Individual accountability. Every week, a member of the executive committee must meet, or discuss, with designated billing attorneys on the actions taken in the past week to contact their clients and the results. The report of that attorney’s prioritized clients with the A/R and payments received each week will be the ultimate test of effectiveness. Finish the meeting with the billing attorney describing the actions planned for the upcoming week. Continue this process through year-end. For every attorney who is exceeding expectations with her or his results, you may consider rewarding that person by canceling that week’s meeting!

Finally, document your disciplined procedure in writing and adopt it as an established firm procedure. Beginning with the following year, start to remind the partners in August that the collection push will begin with October billing. Only good results can come from making the procedure more predictable!