



# NEW MONEY

## Managing Law Firm Revenue at the Client Intake Stage



# NEW CLIENTS AND REVENUE MANAGEMENT

Experience has indicated:

- No single new client acceptance policy will fit every firm.
- The framework and processes are usually revised to fit an individual firm's culture - and that management's appetite to challenge the status quo.
- The biggest difference between firms delivering revenue realization improvement and those who don't is a commitment by senior firm management to drive a high level of true policy compliance.

“Insanity is doing something over and over again but expecting different results.”

— Rita Mae Brown

# SECTIONS

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1. Client Intake as Financial Risk
2. New Client Interaction
3. New Client Contact & Frequency

# CLIENT INTAKE DEFINED FOR OUR PURPOSES



- NOT “conflicts checks”
- NOT Subject Matter Preclusion (“the type of work we want”)
- We’re discussing Party Preclusion (“the type of clients we want”) or making sure the firm has clients who pay.
- A “true credit policy” as part of Client Intake is still foreign to most firms.
- Firms can still dramatically reduce their risk of bad debt by managing those clients already in their AR portfolios.
- Policies used to assess risk and manage those high-exposure clients to minimize losses are essential.

# CLIENT INTAKE AS EXPOSURE MANAGEMENT

- A** Estimate the scope of work for each new client/matter as part of the intake process.
- B** Create and promulgate a policy with risk thresholds representing levels of exposure that the firm finds acceptable.

## FOR EXAMPLE:

- If the proposed scope of work is less than \$12,000, minimal monitoring policy.
  - If above \$12,000, but falls short of \$75,000, a practice group leader must approve.
  - If above \$75,000, Management committee must approve new matter.
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- ABOVE Threshold - the firm should investigate the client's ability to pay.
    - Assess the clients' risk and whether the risk indicates a retainer
    - Other fee arrangement be made.
    - This information should be included with the intake form.
  - Public records searches are performed (Lexis/Nexis, Westlaw, etc.) for the business and its principals.
  - Client should receive a rating (see next page). If the rating is a B or C, then a brief write up should accompany the rating.
  - Send to attorney and COO/Department Manager/CFO

# CLIENT INTAKE

## RISK RATING EXAMPLE

### A Rating

Low Risk

#### COMMERCIAL

- More than five years in same business.
- Address of business is same as what client listed as owner.
- Association with other businesses does not create conflict with current business.
- No suits, judgments, liens, bankruptcy filings or other blemishes.

#### CONSUMER

No suits, judgments, liens, bankruptcy filings or other blemishes.

#### RISK TOLERANCE

No budget limit required but could be established.

### B Rating

Low Risk

#### COMMERCIAL

- Less than five years in same business.
- Address of business is same as what client listed as owner.
- Principal is involved in ownership of three or more businesses in a major role.
- Paid-off liens or judgments or active filing or other derogatory mark greater than \$5,000 which could increase the probability of a client paying slowly.
- Request a D & B Report.

#### CONSUMER

Paid-off liens or judgments, or active filing or other derogatory mark greater than \$5,000 which could increase the probability of a client paying slowly.

#### RISK TOLERANCE

Budget limit of \$70,000 (to be determined.)

### C Rating

Low Risk

#### COMMERCIAL

- New or less than one year in business.
- Address does not match if client claims ownership.
- Principal is involved in several businesses which may create a conflict of interest or may cause them to not be managed successfully.
- Bankruptcy within last seven years, or active suits, judgments or liens greater than \$5,000 which may indicate a high probability of slow pay or no pay on the client's behalf.

#### CONSUMER

Request a D & B Report. Paid-off liens or judgments, or active filing or other derogatory mark greater than \$5,000 which could increase the probability of a client paying slowly.

#### RISK TOLERANCE

Budget limit of \$12,000 (to be determined.)

- Rating A – No retainer or line required but attorney would want a one-time retainer just to start the engagement. It should be equal to or greater than one month's estimated billing. Then the client would go to a thirty day billing cycle.
- Rating B or C – Retainer should be equal to 2 times the monthly billing rate. The retainer should be replenished when the accumulated balances of AR and WIP equal 70% to 80% of the Retainer.
- Retainer Policy – Require a retainer for all matters opened for a new client.
- Exceptions require the approval of a Finance Director or similar role.
- Manage this client evaluation process:
  - Adequate retainer levels set
  - Aged WIP and AR as compared to retainer
  - Public records review

# CLIENT INTAKE LIABILITY AND MONITORING



## **PERSONAL LIABILITY**

- Principal(s) of new small businesses may be required to agree to joint liability as specified in the engagement letter.
- Sign the engagement letter, signifying their acceptance of personal liability, as appropriate.

## **ONGOING EXPOSURE MONITORING**

- AR department's responsibility.
- The client's WIP must always be calculated as part of the exposure
- COMPARE: addressing accounts once they are 120 or 180 days past due
- Working out terms and credit arrangements with delinquent clients earlier, while you are still representing them, gives the firm a much greater chance of collection.
- Proactive, early detection before exposure becomes excessive.

# CLIENT INTAKE

## WHERE BAD DEBT IS MITIGATED



### **ADDITIONAL CONSIDERATIONS**

Based on the annual volume of new client-matters

- Existing clients - no intake review is required but collection efforts will begin at 30 days after invoice date.
- For new clients of any budget size, calls will begin at 45 days after invoice date.
- When the Engagement Letter is sent, the Credit & Collections department is notified/copied.
- Calendar tickler to verify that a signed letter has been received within two weeks. The person sending the letter will notify Credit & Collections Department when it is received.
- Not returned in two weeks? Credit & Collections department ask
  - When may the firm expect receipt of the signed document?



# NEW CLIENT INTERACTION

## REACH OUT, RESPECT, RECORD



- Collection notes maintained in a database (e.g. Minisoft ARCS, StarCollect, etc.)
- Mandatory utilization of the system.
- A uniform software usage policy is paramount. Every “touch” recorded.
- If the collections software permits attachments or links to original documentation, these can be grouped with client/matter notes.
- Tone is important. Phone calls are low key, fact -finding, and rapport-building.
  - Never strident or threatening.
  - Consequences can be discussed
  - Communication is always professional, business like

# NEW CLIENT INTERACTION

## REACH OUT, RESPECT, RECORD REPEAT

- Guidelines adopted by the Fair Debt Collections Practices Act
- (FDCPA) regarding time, content, and manner restrictions are instructive (though not binding).
- Collections efforts are always tied to TIME; they are calendar-driven.

Every contact and every note anticipates

- a follow-up call,
- a payment deadline,
- a scheduled discussion, etc.

- Therefore, just as state-of-the-art collections software is calendar-driven, so too should be the content of client calls and the notes entered for next steps.

# CONTACT & FREQUENCY



- All Clients with AR balance > 60 days
- At least once every 30 days unless approved by the Management Committee or CFO.
- Use best judgment on frequency of future contact, which medium is used, so long as once-per-30 rule is observed.
- Not uncommon for CSMs to alternate e-mail messages and phone calls every several work days if, in their judgment, the AP department of the client needs this type of frequency to settle the amount.
- Remember, follow-up is TIME-driven
- Collections software typically prompts the CSM.
- Outlier Reports may affect frequency.
- If a “red flag” report merits higher frequency due to increased exposure to the firm, the CSM shorten the time between subsequent contacts until the amounts due are brought current.

## i3 Demol Influencing New Client Behavior Through 5/31/21

Net AR Balance greater than or equal to \$2,000 ;  
Total Payments = 0 ; Days Since First Fee Bill between 30 and 120

CHICAGO					
Client	Attorney	Gross AR Balance	Unapplied Payment	Net AR Balance	Days Since First Fee Bill
Client: 025527-025527	Billor: 2690	\$261,662	\$0	\$261,662	65
Client: 030792-030792	Billor: 2690	\$22,930	\$0	\$22,930	93
Client: 030883-030883	Billor: 2498	\$55,980	\$0	\$55,980	100
Client: 031000-031000	Billor: 2690	\$25,859	\$0	\$25,859	44
Client: 031270-031270	Billor: 2690	\$17,330	\$0	\$17,330	46
Client: 031809-031809	Billor: 3962	\$62,924	\$0	\$62,924	38

LOS ANGELES					
Client	Attorney	Gross AR Balance	Unapplied Payment	Net AR Balance	Days Since First Fee Bill
Client: 024461-024461	Billor: 3771	\$11,471	\$0	\$11,471	40
Client: 030707-030707	Billor: 3771	\$9,702	\$0	\$9,702	38
Client: 031781-031781	Billor: 125	\$10,593	\$0	\$10,593	50
Client: 031270-031270	Billor: 2690	\$17,330	\$0	\$17,330	46
Client: 031809-031809	Billor: 3962	\$62,924	\$0	\$62,924	38

NEW YORK					
Client	Attorney	Gross AR Balance	Unapplied Payment	Net AR Balance	Days Since First Fee Bill
Client: 018431-018431	Billor: 1043	\$7,726	\$0	\$7,726	74
Client: 019830-019830	Billor: 1984	\$3,230	\$0	\$3,230	54
Client: 031731-031731	Billor: 1112	\$2,998	\$0	\$2,998	100
Client: 031743-031743	Billor: 1255	\$5,977	\$0	\$5,977	99
Client: 031759-031759	Billor: 2341	\$7,845	\$0	\$7,845	67
Client: 031772-031772	Billor: 963	\$28,009	\$0	\$28,009	82
Client: 031774-031774	Billor: 1863	\$2,382	\$0	\$2,382	73
Client: 031875-031875	Billor: 1984	\$2,985	\$0	\$2,985	32
Client: 031881-031881	Billor: 1043	\$9,952	\$0	\$9,952	32

WASHINGTON DC					
Client	Attorney	Gross AR Balance	Unapplied Payment	Net AR Balance	Days Since First Fee Bill
Client: 030025-030025	Billor: 2642	\$6,235	\$0	\$6,235	81
Client: 031769-031769	Billor: 2057	\$8,021	\$0	\$8,021	61
Client: 031832-031832	Billor: 3798	\$4,395	\$0	\$4,395	31
Client: 031890-031890	Billor: 1962	\$52,010	\$0	\$52,010	33