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

CLIENT INTAKE AS FINANCIAL RISK

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.

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.

• 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 Examples

## A Rating

### Low Risk

<table>
<thead>
<tr>
<th>Commercial</th>
<th>Consumer</th>
<th>Risk Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>- More than five years in same business.</td>
<td>- No suits, judgments, liens, bankruptcy filings or other blemishes.</td>
<td>- No budget limit required but could be established.</td>
</tr>
<tr>
<td>- Address of business is same as what client listed as owner.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Association with other businesses does not create conflict with current business.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- No suits, judgments, liens, bankruptcy filings or other blemishes.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## B Rating

### Low Risk

<table>
<thead>
<tr>
<th>Commercial</th>
<th>Consumer</th>
<th>Risk Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Less than five years in same business.</td>
<td>- 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.</td>
<td>- Budget limit of $70,000 (to be determined).</td>
</tr>
<tr>
<td>- Address of business is same as what client listed as owner.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Principal is involved in ownership of three or more businesses in a major role.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Request a D &amp; B Report.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## C Rating

### Low Risk

<table>
<thead>
<tr>
<th>Commercial</th>
<th>Consumer</th>
<th>Risk Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>- New or less than one year in business.</td>
<td>- 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.</td>
<td>- Budget limit of $12,000 (to be determined).</td>
</tr>
<tr>
<td>- Address does not match if client claims ownership.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Principal is involved in several businesses which may create a conflict of interest or may cause them to not be managed successfully.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Request a D &amp; B Report.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CLIENT INTAKE | Risk Rating Examples

CLIENT RATING SCHEMA

• **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

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.

• 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.
• 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.

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.