THE MANAGEMENT MENTORS

Fast-Track Your Cash Flow

ESSENTIAL DEBT COLLECTION GUIDELINES FOR LAW FIRMS

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Welcome to The Management Mentors (TMM) Essential Debt Collection Guidelines, designed to assist law firms in crafting their own procedures. Cash flow is undeniably the lifeblood of every business, and the impact of slow-paying clients can be detrimental.

By leveraging the insights outlined in this document, law firms can develop robust debtor collection procedures that promote financial stability and strengthen client relationships. So let us embark on the journey of enhancing debt collection for sustained success.

Principles of Debt Collection

1. Fees Recovered Principle: A fee is not a Fee until the cash is deposited in the bank. While services rendered may generate invoiced fees, the actual money in the bank is the true measure of financial health. This principle underscores the importance of diligent follow-up to ensure timely payment and accurate reflection of revenue.
2. Finance Cost Awareness Principle: The cost of extending credit to clients can often be overlooked or underestimated. This hidden cost encompasses factors such as opportunity cost, financing expenses (including overdraft interest), and potential bad debt losses. By recognising and quantifying the financial implications of providing credit, firms can make informed decisions regarding debt management strategies.
3. Resource Allocation Principle: Effective debt collection necessitates adequate resourcing of personnel, tools, and processes. Properly trained staff, supported by efficient systems and clear procedures, are essential for navigating the complexities of debt recovery while preserving client relationships.
4. Universal Application and Monitoring Principle: Debt collection applies to everybody in the firm, from partners/directors to support staff. Regular monitoring and enforcement are key to its ongoing success. Ensuring consistent adherence to debt management protocols across all levels of the firm fosters a culture of accountability and reinforces the importance of timely collections.

These principles are guiding tenets for crafting a Debt Collection Procedure that prioritises financial sustainability, risk management, and operational efficiency. Embracing these principles enables law firms to facilitate debtor management and promote financial well-being.

Integration with Other Policies

While a Debt Collection Procedure plays a crucial role in managing billings, its effectiveness is maximised when aligned with other relevant policies within the firm. Harmonisation with the following policies is essential:

1. Credit Policy: The Credit Policy will outline the criteria for extending credit to clients, including credit limits, payment terms, and credit evaluation procedures.
2. Terms of Engagement: The Terms of Engagement delineate the contractual obligations between the firm and its clients, encompassing services rendered, fee structures, and payment terms.
3. Lockup Management (W.I.P. and Debtors): Effective Lockup Management is essential for optimising cash flow and operational efficiency.

By coordinating with lockup management policies, the debt collection procedure facilitates proactive monitoring of W.I.P. and debtor's balances, enabling timely invoicing and collections activities.

Debtor Collection Procedure - Guidelines

Purpose

You provide clients with a service and invoice them at various stages. When an invoice is sent terms state that payment is required within a set time (e.g. 14 days of the invoice date). If the invoice is not paid within the agreed time, then you start the debt collection process.

Overview

Many people find collecting outstanding invoices difficult to approach and will put it off. It is important to remember that you do not work for free, and in most cases, clients have simply forgotten to pay. Most of the time clients will be more than happy to pay when reminded. Maintaining a consistent debtor collection process will help you to recover debts while maintaining good client relationships, and stay in business.

Responsibilities

Upon completion of services, a fee invoice is generated by the lawyer under the terms of engagement, specifying payment required within 14 days of the invoice date. The lawyer is still responsible for the client relationship and can initiate the initial follow-up process. However, greater success can be achieved by an in-house collection person who has proper training as they will be more efficient, cost-effective, and less likely to upset the relationship with the client.

Ask for the Money:

- Upon completion of services, promptly issue invoices with clear payment terms of 14 days from the invoice date.
- Contact the client immediately if their account becomes past due, reminding them of the outstanding payment and requesting prompt settlement.

Set Up a Process and Follow It:

- Establish a structured debt collection process, defining tasks, timelines, and responsible individuals.
- It is important that information about following up clients for payment is recorded in an appropriate place.
- Use Practice Intelligence to monitor all debtors (and WIP) as it highlights which items need attention.
- Use Debtor Days as a guiding principle. As a guide (every firm can be different), debtor days should be less than 40 days, exceeding that you have a major issue! For this Practice Intelligence will assist with giving you the information you need or you can use this formula. (Accounts receivables ÷ Annual credit fees) x 365 days = Debtor days.

Follow-Up Schedule:

If you have an in-house collection person they take over and follow up as below. So, the following starts after the invoice has been sent, based on 14-day credit terms.

- Day 3: Initial Email to remind when invoice is due
- Day 15: First Collection Email/Text
- Day 25: Phone Call
- Day 30: Second Collection Email/Text and Credit Hold
- Day 35: Third Phone Call
- Day 40: Final Demand Letter/Email

Put Delinquent Accounts on Credit Hold:

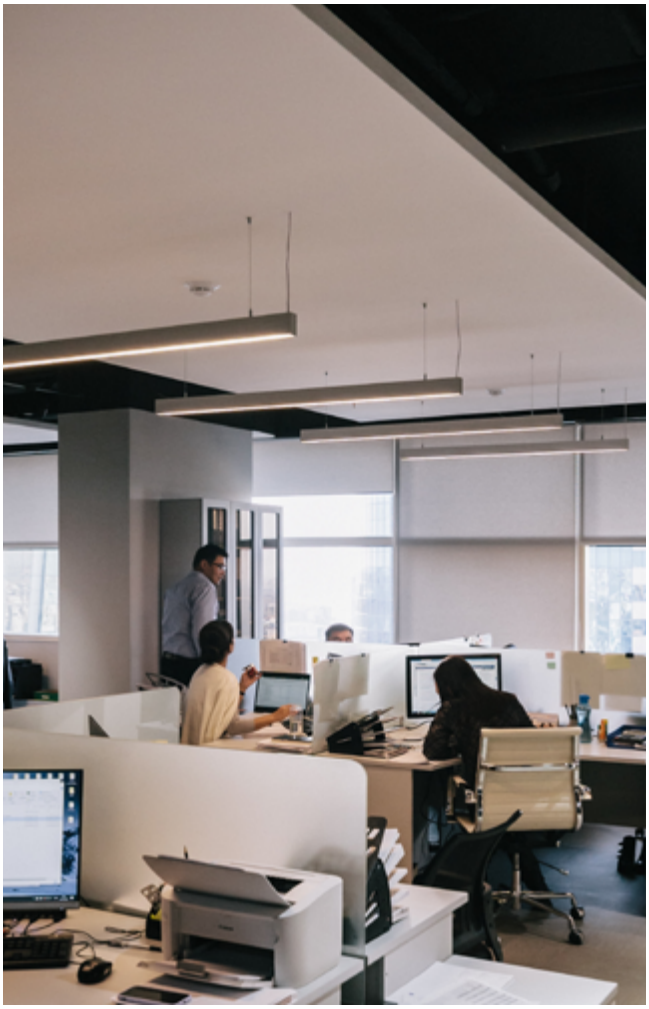
- Deny further services to delinquent clients until payment is made or acceptable payment arrangements are agreed upon.

Use Third-Party Collectors Sooner:

- Engage third-party collectors when invoices are approximately 65 days past due or deemed necessary based on industry standards.

Additional Guidelines:

- A properly trained debt collection person will generate better results and is more cost-effective than lawyers undertaking this work
- Regularly review aged debtor reports in Practice Intelligence to identify overdue accounts and initiate prompt follow-up procedures
- Educate clients on payment expectations and consequences of non-payment
- Maintain accurate records of all communications and actions taken regarding overdue accounts
- Ensure adherence to credit application
- Apply credit limits per client



Closing Remarks

It is essential to recognise that the guidelines outlined here serve as just a guide. Every law firm operates within its unique context, facing distinct challenges and opportunities in debt management. While this document provides valuable insights, we understand that implementing a new procedure can be daunting.

So, The Management Mentors are here to support you every step of the way. Whether you need assistance in customising a procedure to suit your firm's specific needs or guidance in implementing it effectively, our team is readily available to provide the support and expertise you require.

Do not hesitate to reach out to us for further assistance or clarification. Together we can streamline your debt collection process and help optimise cash flow.

Disclaimer

This document is intended for general informational purposes only and does not constitute legal or financial advice. The Management Mentors (TMM) disclaims any liability for actions taken based on the information provided. Firms are encouraged to seek professional advice tailored to their specific circumstances before implementing any debt collection procedures.

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