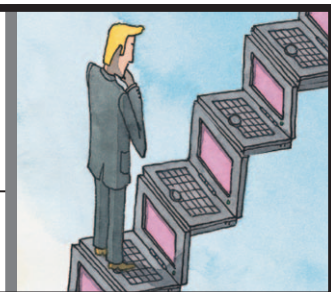


TECHNOLOGY A Special Report

When It's Time to Pay Up

Law firms need software to help organize the collection process.



BY JAKE KROCHESKI AND RICK WINANS

Like all businesses, law firms are faced with the issue of collections. After all, there are many reasons why clients do not—or cannot—pay their bills on time and in full. However, while all businesses have some common collection issues, law firms also have their own problems.

For instance, lawyers are often reluctant to tell their clients that they owe them money because they fear it will hurt the relationship. They often use complex transactions that do not lend themselves to a regular payment schedule. Also, there's sticker shock, when clients are surprised by the size of their bills.

Over time, firms have become more aggressive and sophisticated in approaching their collections. They have created collections committees, organized procedures, built in-house staffs, and retained consultants to help them in their collection efforts. Firms also have increasingly recognized the value of collection software, especially software designed specifically for law firms.

Unfortunately, even when firms install legal-specific software, in far too many instances they have been frustrated by their experiences.

Why? For one reason, software alone is not the answer. Many firms believe that by installing the software, their receivable problems will be solved. They forget that software is just a tool. More important, however, is the firm's strategy for using the software, and the people who use it. Software is an aid to—not a substitute for—the personal contact needed to get bills in line for payment.

Software tends to work better when it's turned on. A surprising number of law firms say they install the software but never get around to using it.

Firms do not fully understand what software can do for them. They often approach their collection efforts half-

heartedly. They are not sure what information about their receivables they need to gather and how to analyze that information. This is largely because they do not understand what information is needed to measure effective collection efforts.

Many firms don't know how to determine if collection efforts are successful. They make the mistake of believing that since they use collection software, they are making efficient collections. The day-to-day use of the software is not as important as using it to provide firm management with a picture of the progress of collection efforts.

Software does not make up for poor decision making. It can never help a firm succeed if the attorneys take on clients who will not or cannot pay. In such circumstances, the value of the software is in helping the firm identify who these clients are—and what their unpaid balances are—sooner rather than later, so as to minimize these mistakes in the future.

Firms have not realized the full potential of software. It can be used to predict cash flow, determine if and when clients will pay, and identify which collection methodologies will work best for which clients.

"The hidden benefit, and the real potential power of software," says Tom Annick, chief financial officer of D.C.'s 75-lawyer Sterne Kessler Goldstein Fox, "is how billing attorneys and management can access the data. The best-designed programs will summarize the specialists' notes, covering payment terms, collection status, last updates, and next-action step in an easily readable format. The net effect is that by leveraging the specialists' work product, attorneys—and especially management—can monitor and act when it is convenient for them."

Effective collection software should provide:

(1) Classification codes: Does it allow the firm to classify receivables by the prospects for payment, the reasons for

nonpayment, and who is handling the collection?

Management can use the codes to identify which accounts it wants an individual to work on at a given time. For example, it might direct the collector to focus on all accounts over 90 days with a balance more than \$500.

(2) Accounts receivable notes: Does it maintain a current and historical collection note so the firm can review the progress of collection efforts?

(3) Task schedule: Does it allow the firm to follow a schedule for follow-up?

(4) Payment commitments: Does it prompt the collector to put commitments on a tasks list so he can ensure that payments arrive on the promised date?

(5) Tasks list scheduling: Does it have a list of accounts showing follow-up dates to contact and payment promises? Does it have the flexibility to sort receivables by any criteria, including due date, balance and classification?

(6) Aging: Does it permit firm management to easily set parameters of number of days past due to fit the firm's collection needs?

(7) Accounts look-up: Can accounts receivable information be called up by any number of pieces of information?

(8) On-screen information: Does the software put the rele-

vant invoice and payment information on screen?

(9) Contact information: Does it let the firm maintain and easily update all contact information, including phone and fax numbers and e-mail addresses?

(10) Reports: Can the software allow the firm to create a variety of reports?

(11) E-mail: Does it allow the firm to e-mail screens on accounts to appropriate attorneys or to firm management?

(12) Exportability: Can users export collection screens or reports to a Word or Excel document?

Of course, it is also essential that firms have a sound collection strategy, including workable policies and procedures, and a means for effective one-to-one contact with clients to ensure bills will be paid.

There is no getting around the fact that collections is "roll up your sleeves" work. Good software will make it easier.

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