

7 Proven Ways to Make Your **Billing & Collections** More Profitable



From the Editors of Law Office Manager



**Law
Office
Manager**

Special Report:

7 Proven Ways to Make Your Billing & Collections More Profitable

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7 Proven Ways to Make Your Billing & Collections More Profitable

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Introduction

As a law office administrator, one of your most important responsibilities is managing the firm's finances. This includes billing clients and collecting payments, which can be a challenging task. However, there are several proven ways to make your billing and collections more profitable. Here are seven of them.



1 Create clear, detailed invoices

One of the most common reasons for delayed payments is confusing or incomplete invoices. To avoid this, make sure your invoices are easy to read and understand. Include all relevant details, such as the date of service, the hours worked, and any expenses incurred. Make sure the invoice includes clear payment terms, including the due date and accepted payment methods.

In addition to being clear and detailed, invoices should also be professional-looking. Consider using a template or software that can generate professional-looking invoices quickly and easily. This can help convey a professional image to clients and make it easier for them to pay their bills promptly.

Designing a clear and effective invoice is important for any law office, as it helps ensure timely payment from clients and reduces confusion and disputes over billing. Here are some tips to help you design an effective invoice:

1. Use a professional template

Using a professional template for your invoices can help ensure that they look polished and consistent. You can use accounting software or online tools to create a template that includes your law firm's logo, contact information, and branding.

2. Clearly state the invoice date and number

Make sure your invoice includes the date it was created and a unique invoice number. This can help you track payments and follow up on overdue invoices. It's also important to make sure that the invoice number is sequential and consistent.

3. Include a detailed description of services rendered

Be sure to include a detailed description of the services that were provided to the client. This can help the client understand what they are being charged for and avoid confusion over billing. Make sure that the description of services is clear and concise, and includes any relevant billing codes or time entries.

4. Itemize all charges

It's important to itemize all charges on your invoice, including any hourly rates, fees, or expenses. This can help the client understand how much they owe and why. Make sure that each charge is clearly labeled and that the total amount due is clearly stated.

5. Clearly state payment terms

Make sure that your invoice clearly states the payment terms, including the due date, the acceptable forms of payment, and any late payment fees or interest charges. It's important to communicate your payment terms clearly and consistently to avoid confusion or disputes with clients.

6. Provide contact information for billing inquiries

Include your law firm's contact information on the invoice, including a phone number and email address where clients can reach you with billing inquiries or concerns. This can help ensure that clients feel supported and can help resolve any issues that arise.

7. Send the invoice in a timely manner

Finally, it's important to send your invoices in a timely manner. Send them promptly after services have been rendered and make sure that clients receive them promptly. This can help ensure that payments are received in a timely manner and can help avoid overdue invoices.

By following these tips, you can design a clear and effective invoice that helps your law firm get paid in a timely manner and reduces confusion and disputes over billing.



2 Bill promptly and consistently

Many law firms fall behind on billing, which can lead to delayed payments and cash flow problems. To avoid this, make sure you bill promptly and consistently. Set aside time each week or month to review your billable hours and expenses and generate invoices. Consider using software that can automate this process and send out invoices automatically.

It's also important to be consistent in your billing practices. Establish clear policies for when invoices will be generated and when payments are due. Make sure all attorneys and staff members are following these policies consistently. This can help ensure that clients know what to expect and can help reduce confusion and disputes over billing.

Here are some tips on how to bill regularly and consistently:

1. Establish billing procedures

Establishing clear and consistent billing procedures is essential for billing regularly and consistently. This includes determining when bills will be sent, who is responsible for billing, and how to handle overdue invoices. Make sure all staff members are aware of these procedures and are following them consistently.

2. Use automated billing software

Using automated billing software can help streamline the billing process and ensure that bills are sent out regularly and consistently. This type of software can generate invoices automatically based on pre-set billing schedules and can be customized to meet your law firm's specific needs.

3. Set billing deadlines

Setting billing deadlines can help ensure that bills are sent out in a timely manner. Consider setting a regular billing schedule, such as sending out invoices on the first day of each month, and make sure all staff members are aware of these deadlines.

4. Communicate billing policies to clients

Make sure clients are aware of your billing policies and procedures, including when bills will be sent and how they can pay. Consider providing clients with a written explanation of your billing policies and procedures, as well as contact information for billing inquiries.

5. Provide detailed invoices

Providing detailed invoices can help reduce confusion and disputes over billing. Make sure your invoices include a detailed description of the services provided, itemized charges, and any applicable billing codes or time entries. This can help clients understand what they are being charged for and avoid disputes over billing.

6. Follow up on overdue invoices

Following up on overdue invoices is important for maintaining a healthy cash flow. Make sure you have a process in place for following up on overdue invoices, including sending reminders and assessing late fees or interest charges. Consider automating this process with billing software to help ensure consistent and timely follow-up.

Enforce those billing and collection guidelines

Getting paid or not getting paid to a great extent depends on the firm's billing and collection guidelines—and whether they are enforced.

Without guidelines, the firm is asking for money loss. Billing is haphazard, collection work isn't done regularly, personal clients aren't always satisfied with their bills, and corporate clients may hold up payment or contest the bill.

Guidelines will vary from firm to firm. They have to reflect the firm's culture along with its clients and the type of work it does.

But in general, best practice calls for traditional procedures. Here are the basics.

First and last month up front

Start with a retainer.

With almost all clients, the firm takes an understood risk when it accepts work. The client may be a slow payer or a part payer or may have an uncertain financial future and become unable to pay.

A retainer is the only way to ensure that the firm doesn't wind up holding an unpaid bill and possibly being forced to continue the work for free.

The amount depends on the nature of the representation, but on average, an appropriate amount is sufficient to cover the first 60 days of expected billing so the firm isn't doing work the client can't pay for.

Think of it as the first and last month's deposit and bill for the work as it progresses.

Then after all the money is collected, return it to the client. If the client doesn't pay, the firm has the first and last month's bills covered.

The retainer is a test of the client's reliability, especially for clients who are experiencing financial difficulty. If someone can't or won't pay it, why should that person suddenly be able to pay it later on during the legal process?

A defined and enforced policy

Every firm needs a billing procedure. And that process has to be well defined and also enforceable.

It needs to cover when and how invoices are sent and when and how collections take place. But it also has to cover when the attorneys run in their time, and that's where the enforcement comes in.

To get the attorneys to honor the billing rules, there has to be a carrot and a stick. The carrot depends on firm preference. What's a reward in one firm will not be true in another. But it doesn't have to be elaborate. Food is generally an appreciated reward, and it can be something as simple as lunch for the practice group.

The penalty, on the other hand, has to have a bite in it. And the partners have to impose it on every violation.

- Some firms fine the attorneys for lateness, and for partners, the fines run as high as \$100 per day per matter.
- Some firms withhold the attorney's paycheck until the billing is completed.
- Some make billing part of the associates' performance reviews.
- Or the firm might stop an automatic salary deposit and require the attorney to get the check personally from the managing partner.
- The one penalty that doesn't work, however, is public embarrassment where the firm publishes the names of the attorneys who are behind on billing. Far from doing what it's meant to do, a delinquency list becomes a merit badge for the offenders. It's a swagger.

Billed by the 15th, paid by the 30th

Send all the invoices by 15th of the month. Don't wait until the 30th as most firms do.

Bills generally get paid in the month they are received. Send them on the 30th, and the receivables are outstanding by another 30 days; send them mid month, and most clients will pay during that same month, which means receivables are outstanding only 15 days. The sooner the client gets the bill, the better the chance of getting paid fast and in full. In fact, billing by the 15th versus the 30th can increase collections by as much as 5%.

Bill the way the client wants

Another essential practice is to follow the billing guidelines for corporate clients precisely. Most corporates have standard guidelines for outside counsel. Yet many times the partner who receives the guides doesn't send them to everybody working on the matter and the attorneys don't even know about them. Missing the guidelines means missing the money. A corporate may hold up payment or not pay at all. For that reason, the firm needs a procedure for disseminating the guides and ensuring that the invoices follow them.

That requires that somebody in the firm review the invoices to make sure they meet the requirements. The attorneys can't memorize everything. If there's a requirement that new time keepers get approval before entering time, the attorney may well not be aware of that. In-house legal departments keep an eye on the cost of outside attorneys, and they pay close attention to untimely billing, vague billing descriptions, and questionable timekeepers and costs. They can be sticklers to the rules because the attorney market is wide open. If one firm doesn't follow their guidelines, another firm will.

Why is it so expensive?

There needs to be a standard way to write the time narratives so the bills display the value of the work that is done. Along with that, the narratives need to be phrased clearly so the client can understand them. Few firms have a formal practice on how time should be entered on the bill. And few firms give the attorneys any training on how to enter time.

An entry of no more than reviewed document shows absolutely no value and may well be rejected by outside counsel as well as by an individual client. There needs to be clear detail so the client understands not only what was done but why and how it affects the outcome of the matter.

Don't be the banker

Another good practice is to not to bill the client for the outside costs the firm incurs, particularly significant costs. Those are charges from other entities for things such as expert witnesses, e-discovery, or records management. The firm shouldn't have to collect those payments from the clients; the third party should be billing the clients directly. There's no need to carry that cost on the books. Neither is there any need for the firm to take on the administrative work of billing for them. What's more, the client needs to see an outside charge for what it is—a charge from an outsider, not an unexpected hike in the legal fee—and by the way, has the firm marked that up?

Push for payment all year long

Timing for the collection work counts too. Don't do what many firms do and wait till the end of the year to start pushing for late payments. Any client knows that by the end of the year the firm is getting desperate for the money and is willing to cut a deal. Worse, if the matter is still in progress, there could be a real payment problem the firm should have discovered earlier—when it could have stopped the work before all those hours were lost. Or that client could be somebody who never intended to pay in the first place. To get paid, any firm needs a consistent and escalating procedure that's consistent throughout the year. Every step should be laid out so there's no variance in when the billing attorney gets involved or when the managing partner gets involved or when the matter is turned over to a collection agency.



3 Offer electronic payment options

Today, many clients prefer to pay their bills electronically. Offering electronic payment options, such as online payments or ACH transfers, can make it easier for clients to pay their bills on time. It can also speed up the payment process and reduce administrative costs.

To offer electronic payment options, you'll need to set up a payment gateway or work with a payment processing provider. Make sure you choose a provider that is reputable and offers competitive rates. You should also make sure that your payment gateway is secure and compliant with all relevant regulations, such as PCI DSS.

Electronic billing options can be a convenient and efficient way for a law office to streamline its billing process and reduce administrative costs. Here are some ways a law office can use electronic billing options:

1. Online payment portals

Many clients prefer to pay their bills online, and offering an online payment portal can make it easier for them to do so. A law office can set up an online payment portal through its website or through a third-party payment processor. This can allow clients to pay their bills securely and conveniently, and can also reduce administrative costs associated with processing paper checks.

2. Electronic invoicing

Electronic invoicing allows a law office to send invoices to clients via email, rather than through traditional mail. This can reduce printing and mailing costs, as well as the time and effort required to manage paper invoices. Electronic invoicing can also be more efficient, as invoices can be sent out automatically on a pre-set schedule, and clients can receive and pay invoices instantly.

3. Online time tracking

Online time tracking can help a law office keep track of billable hours more accurately and efficiently. Many software programs

allow lawyers to enter their time and expenses online, from any location. This can help to reduce errors and streamline the billing process, as invoicing can be generated automatically from the time entries.

4. Integration with accounting software

Many electronic billing options can be integrated with accounting software to further streamline the billing process. This can allow invoices to be generated automatically from time entries, expenses, and other billing data, reducing the need for manual data entry and increasing accuracy. Integrating with accounting software can also help to manage client accounts, track payment status, and provide financial reports.

5. Electronic reminders

Electronic billing options can also be used to send reminders to clients about upcoming or overdue bills. Reminders can be sent via email or through an online portal, and can help ensure that clients are aware of their billing status and reduce the risk of overdue payments.

By using electronic billing options, a law office can streamline its billing process, reduce administrative costs, and provide a more convenient and efficient experience for clients. Electronic billing options can also help to reduce errors, increase accuracy, and provide better financial management capabilities.



4 Use a retainer system

A retainer system can help you collect payments more efficiently and reduce the risk of unpaid bills. Under a retainer system, clients pay a set fee upfront, which you can then draw from as you perform services. This can help ensure that you are paid for your work, even if the client is slow to pay.

To set up a retainer system, you'll need to establish clear policies and procedures for how retainers will be managed. Make sure all attorneys and staff members are following these policies consistently. You should also make sure that you are communicating clearly with clients about how the retainer system works and what services are covered under the retainer.

A retainer system is a common billing method used by law firms, particularly in the case of litigation or ongoing representation. In a retainer system, a client pays a set amount of money upfront, which is then used to cover legal fees and expenses as they accrue. Here are some ways a retainer system can help improve billing and collections for a law office:

1. Predictable cash flow

A retainer system can provide a more predictable cash flow for a law office, as the funds are collected upfront and can be used to cover legal fees and expenses as they accrue. This can reduce the administrative burden of billing and collections and help ensure that the law office has a steady stream of revenue.

2. Reduced billing disputes

In a retainer system, the client pays upfront for legal services, which can reduce the likelihood of billing disputes. By paying upfront, the client is aware of the cost of legal services and can manage their finances accordingly. This can reduce the likelihood of disputes over billing and collections, and can help maintain a positive relationship between the law office and the client.

3. Improved collections

A retainer system can also improve collections for a law office, as the client has already paid upfront for legal services. This can

reduce the risk of overdue payments and can provide a more efficient way to collect payments. The law office can also track the use of the retainer, and communicate with the client when additional funds are required.

4. Better financial planning

A retainer system can help a law office better plan for its financial needs. With a set amount of funds available upfront, the law office can plan for legal expenses and manage cash flow more effectively. This can provide more stability and security for the law office, as well as better financial management overall.

5. More efficient billing

A retainer system can also provide a more efficient billing process for a law office. With upfront payment, the law office does not need to generate invoices for each individual service or expense. This can reduce the administrative burden of billing and collections and can provide a more streamlined process overall.

Overall, a retainer system can provide a range of benefits for a law office, including predictable cash flow, reduced billing disputes, improved collections, better financial planning, and more efficient billing. By implementing a retainer system, a law office can provide a more efficient and effective service for its clients, while also improving its own financial management capabilities.



5 Monitor your accounts receivable

To improve your collections process, it's essential to monitor your accounts receivable regularly. This means tracking the status of all outstanding invoices and following up on any late payments. Consider using software that can help you manage your accounts receivable more efficiently and send out automatic reminders to clients who are behind on payments.

When monitoring your accounts receivable, it's important to be proactive. Don't wait until invoices are past due to follow up with clients. Instead, consider sending out reminders a few days before the due date, as well as follow-up reminders after the due date has passed. You should also establish clear policies for how and when you will follow up with clients who are behind on payments.

Monitoring accounts receivable is an important task for a law office to ensure that it receives payment for legal services rendered. Here are some steps a law office can take to monitor its accounts receivable:

1. Establish a system for tracking payments

The first step in monitoring accounts receivable is to establish a system for tracking payments. This can be done through an accounting software program, spreadsheets, or other tools. The system should include information on client accounts, payment history, and outstanding balances.

2. Set payment terms and due dates

The law office should establish payment terms and due dates for each client. This can be done through a retainer agreement or engagement letter, outlining the payment terms and deadlines. The payment terms and due dates should be communicated clearly to the client, and should be included in all invoices and billing statements.

3. Monitor payment status

The law office should monitor the payment status of each client, including payment due dates and outstanding balances. This can

be done through the tracking system established in step 1. The law office should follow up with clients on overdue payments and work to resolve any payment disputes or issues.

4. Develop a collections policy

A collections policy can help a law office manage overdue accounts receivable. The policy should outline the steps the law office will take to collect overdue payments, including phone calls, emails, and legal action if necessary. The collections policy should also include information on interest charges for late payments and any other fees associated with collections.

5. Provide regular billing statements

Regular billing statements can help clients stay on top of their payment obligations and can provide a reminder of outstanding balances. The billing statements should include a clear breakdown of services rendered, payment due dates, and outstanding balances.

6. Analyze accounts receivable aging reports

Accounts receivable aging reports can help a law office analyze its payment history and identify areas for improvement. The aging report should include information on the length of time outstanding balances have been outstanding and the percentage of total receivables that are past due. The law office can use this information to develop strategies for improving its collections process and reducing the risk of overdue payments.

Keep your accounts receivable young

Collection work is something that can't wait, because a dollar of receivables doesn't stay a dollar for long.

The dollar the office bills this month will be worth only 50 cents six months from now. In a year, it will be worth no more than 23 cents and probably more in the range of 19 to 20 cents. After two years, a 5-cent recovery is about the best any office can expect.

Much of the loss comes from the fact that people move; after a year, as many as 25% of the bills in collections will go to the wrong address.

One way to keep the receivables from aging is to give the partners quarterly printouts of the all the accounts that are 120 days old or older. On this printout, identify the attorney in charge, the amount due, how long it has been due, and what payments or payment arrangements have been made.

Ask the lawyers to check off what they want done with each of their accounts—write it off, turn it over to a collection agency, or send it to small claims court.

One firm reports that this strategy reduced the average age of its accounts from 65 days to 31 days.

Overall, monitoring accounts receivable is an important part of financial management for a law office. By establishing a system for tracking payments, setting payment terms and due dates, monitoring payment status, developing a collections policy, providing regular billing statements, and analyzing accounts receivable aging reports, a law office can improve its collections process and reduce the risk of overdue payments.



6 Offer discounts for early payments

To encourage clients to pay their bills more promptly, consider offering discounts for early payments. For example, you might offer a 5% discount for payments made within 10 days of the invoice date. This can incentivize clients to pay their bills on time and improve your cash flow.

A law office can offer discounts for early payments by creating a policy that rewards clients who pay their bills promptly. This can be achieved by following these steps:

1. Set up a payment deadline:

The first step is to set up a payment deadline that allows clients to pay their bills within a certain time frame. For example, the payment deadline may be set for 30 days after the date the bill is sent.

2. Establish a discount percentage:

Determine the percentage of the discount that you will offer to clients who make early payments. This could be a flat percentage, such as 5%, or it could be a sliding scale based on the amount of the bill or the length of the payment period.

3. Communicate the policy to clients:

Once the policy has been established, communicate it to your clients. This can be done through a letter, an email, or even by including the policy on the bill itself. It's important to explain the benefits of the policy to the clients, including how it can help them save money and avoid late fees.

4. Track payments:

Monitor payments to ensure that clients who have made early payments receive the discount they are entitled to. This can be done manually or through the use of software that tracks payments and applies the discount automatically.

5. Review and adjust the policy:

Periodically review the policy to ensure that it is still working effectively. This may include adjusting the payment deadline or the discount percentage, or even discontinuing the policy altogether if it is not achieving the desired results.

By implementing a policy that offers discounts for early payments, a law office can encourage clients to pay their bills promptly while also improving cash flow and reducing the need for collections efforts.

While discounts for early payments is a winning formula, you should think twice before discounting services to your clients.

Don't give discounts to clients without first calculating cost

Discounts are dangerous things. Some firms give them out willingly in exchange for a guaranteed volume of business. Others wind up having to take them for lack of client planning. You need to understand the dollar cost of every discount. Calculate how the firm will fare with the business and without it and know how much discount the firm can accept. Even better, keep control on the client balance so the firm doesn't have to take discounts in the first place.

Sure business or sure loss

It's common for firms to grant discounts in exchange for guaranteed business. But guaranteed business doesn't mean guaranteed profit or even guaranteed survival. Suppose the firm currently charges Bigshot Client \$200 an hour for a limited amount of work. The partners ask for Bigshot's other business as well, and the response is "okay, we'll give it to you, but only if you lower your rate to \$150 an hour." Current revenues are good, so the firm figures it can take on the work, reasoning that "every nickel we lose on the lower rate we'll make up on the volume." Not so fast. It doesn't work out that way. In fact, the only time a discount makes sense is when the attorneys can't fill up their time. Most firms have that backwards and give discounts only when the attorneys have steady work at the standard rate, figuring that's when they can afford the loss. But if the revenues are good, there's no need for a sale. If the attorneys already have enough work lined up at \$200, why work for \$150? It may be guaranteed work, but it's also a guaranteed pay cut.

Idle hours = the devil's workshop

Give a discount only when the hours are idle and the year is looking bleak. At that point, guaranteed work is a good deal. But

even then, there's a breaking point. Suppose Attorney Smith commits 1,000 hours to Bigshot at the requested \$150 hourly rate. Will that cover the cost of doing the business?

Tally the overhead, or the attorney's share of what it costs to run the shop. Take Smith's share of the annual rent, support staff, utilities, and so on and divide it by the number of hours he is expected to bill in a year. If his share of the costs is \$150,000 and he's expected to bill 2,000 hours, that's \$75 an hour allotted to office overhead. Suppose Smith's salary and benefits come to \$150,000. Divide that by the 2,000 hours, and that's another \$75 an hour going to his support. That makes Smith's breakeven point \$150 an hour, or \$300,000 a year. If he's only bringing in 1,000 hours at the standard \$200 rate and can't replace the remaining hours with other work, then Bigshot's 1,000 hours at \$150 will produce an annual \$350,000 – not such a bad deal considering the alternative.

But if business is good and Smith has other clients or potential clients who will fill that time at the regular fee or even at a lower amount of, say, \$180, why push that business aside for Bigshot? All that company is offering is a guaranteed pay cut. The firm will make more money if it turns down the business.

How deep is too deep

There's also the question of how deep a discount the firm can afford to accept, even when business is at its lowest. Suppose all Bigshot is willing to pay is \$100 an hour. At year's end, that will come to 1,000 hours at \$100, or \$100,000 plus the other 1,000 hours at Smith's standard \$200 rate, or \$200,000. The firm will see \$300,000, which is the break-even point. Is this an acceptable rate? It probably is not. Lose any one of those hours to a write-off, and the firm slides immediately into the loss column.

Discounts hidden from the books

Besides the agreed-on discounts, firms fall into hidden discounts. They come from associate billings, and few firms even recognize them as a loss. Firms do a good job of tracking partner write-offs, but what they don't keep track of is the time lost when a partner reduces an associate's billed hours. Those hours get cut often and without a second thought. An associate turns in a brief showing 10 hours' work, and the partner takes the time down to six hours to account for the associate's inexperience. And in the process, the four hours just disappear.

While it may be appropriate to reduce those hours, it's not appropriate to let them go unrecorded. Keeping track of the cut-back time gives a better gauge of the number of associate hours

that actually do need to be written off. It may turn out that drafting that type of brief actually requires eight hours even for an experienced associate, not the six that the partner guessed on. What's more, seeing where time is being written off tells the firm where training and mentoring is needed so the wasted hours can be reduced or even prevented in the future. Every worked hour, billed or not, needs to be accounted for and evaluated. That's the only way the firm can know how many associate hours should be written off in specific types of work and where it needs to focus associate training.

Client in control

A final aspect of discounts to be aware of is bargaining power. While the firm may at times have no alternative but to accept a discount, don't do so without a fight. Always try to get as close as possible to the standard rate. But understand that success will depend on the strength of the bargaining power.

Many firms weaken their bargaining position by relying too heavily on one client. Whenever a single client accounts for a substantial portion of the revenue, the partners have something to be concerned about. Substantial means more than 5% of the revenue. At 10%, it worsens to being a bad situation. And at 20%, the client has the firm hooked. It holds all the bargaining power because it determines the firm's ability to survive. It can say, "We account for most of your revenues. Give us a discount or we'll take our work down the street." At 5%, the firm can say "we hate to lose you, but farewell." At 20%, it can only respond with a meek "okay."

Regardless how good the income from a single client, the firm should always be expanding its client base so the client dependency doesn't get unbalanced. Don't let one client gobble up the firm. If the business from a single significant client grows by 10%, the firm should expand its business in other areas by 10%. When a single client represents too much of the revenues, it knows it's sitting in the take-it-or-leave-it seat and can demand discounts and write-offs. What's more, if that client leaves, word will get out, and the firm will be in a weak bargaining position with new clients. Along with that, go after work that isn't price sensitive. Insurance defense, for example, "is work any licensed lawyer can do, and there are plenty of lawyers out there who can do it." The same is true of routine work such as divorces, consumer matters, and residential closings. The clients hold the power. Look for work that isn't so easy to hand out so the firm stays in control of the pricing.



7 Hire a collection agency

If you're struggling to collect payments from clients, it may be time to hire a collection agency. These companies specialize in collecting debts and can help you recover unpaid bills. While there is a cost associated with using a collection agency, it may be worth it if you're having difficulty collecting payments on your own.

Hiring a collection agency can be a useful tool for law office administrators who are struggling to collect overdue payments from clients. However, it's important to approach this decision carefully and thoughtfully. Here are some tips to keep in mind when considering whether to hire a collection agency:

Do your research

Before hiring a collection agency, it's important to do your research and find a reputable agency that is a good fit for your law office. Look for agencies that specialize in working with law firms and have a proven track record of success in collecting overdue payments. Check online reviews and ratings, and ask for references from other law firms that have worked with the agency.

Understand the costs

Collection agencies typically charge a percentage of the amount collected, ranging from 25% to 50% or more. Before hiring an agency, make sure you understand the costs involved and factor them into your financial projections. Consider whether the potential benefits of hiring an agency outweigh the costs, and whether you can afford to pay the fees.

Consider the impact on your relationship with clients

Hiring a collection agency can potentially damage your relationship with clients, especially if they feel that you are being aggressive or overly harsh in your collection efforts. Before hiring an agency, consider whether there are other options you can pursue to collect overdue payments, such as negotiating

payment plans or offering discounts for early payment. If you do decide to hire an agency, make sure you communicate clearly with clients about your collection policies and procedures.

Choose an agency with legal expertise

Because you are a law firm, it's important to work with a collection agency that has expertise in the legal industry. Look for agencies that understand the unique challenges of collecting overdue payments from law firm clients, and have experience working with attorneys and law firms. This can help ensure that the agency understands your needs and can provide effective support.

Establish clear policies and procedures

Before hiring a collection agency, it's important to establish clear policies and procedures for how overdue payments will be handled. Make sure all attorneys and staff members understand these policies and are following them consistently. This can help minimize confusion and disputes over billing and collections, and ensure that clients are treated fairly and consistently.

Monitor the agency's performance

Once you have hired a collection agency, it's important to monitor their performance regularly. Keep track of how much they are collecting, how quickly they are collecting payments, and what their fees are. Consider whether their performance is meeting your expectations, and whether you need to make any changes to your collection policies or procedures. Regularly evaluating the agency's performance can help ensure that you are getting the best value for your money and that your collections process is as effective as possible.



Model Billing Statement

Why you need this Model Billing Statement:

Many clients don't like to pay their legal bills and without having measures in place to ensure payments, law firms can run into huge headaches. One best practice is to ensure that your billing statement clearly outlines what services your clients are receiving for their money.

How this Model Billing Statement helps you:

Use this Model Billing Statement to show your clients what services they are being billed for. The more specific you are, the fewer questions you will receive.

How to use this Model Billing Statement:

No two practices are the same, so modify this Model Billing Statement based on your circumstances.

BILLING STATEMENT

XYZ Law Firm
Anytown, USA
555-555-5555

To: Client
Email

April 25, 2023

| Date | Description | Hours | Rate | Amount Billed |
|----------------------------|---------------------------------|------------|--------|-----------------|
| 4/1/2023 | Open and set up electronic file | 1.0 | 130.00 | 130.00 |
| 4/2/2023 | Telephone call with client | 0.2 | 275.00 | 55.00 |
| 4/10/2023 | Prepare for deposition | 0.5 | 350.00 | 175.00 |
| 4/12/2023 | Attend deposition | 1.5 | 350.00 | 525.00 |
| Total attorney fees | | 3.2 | | \$885.00 |

| Trust Funds | | | |
|--------------------------------------|------------------------|--|-------------------|
| 4/1/2023 | Fee retainer received | | 2,500.00 |
| 4/1/2023 | Cost retainer received | | 500.00 |
| Total default as of 4/25/2023 | | | \$3,000.00 |

| Disbursements | |
|------------------------------|---------------------|
| Attorneys' fees | (885.00) |
| Costs (court reporter) | (350.00) |
| Total disbursements | (\$1,235.00) |
| Total default balance | \$1,765.00 |



Model Policy: Client Billing

Why you need this policy:

Attorneys have every right—and need—to be paid. But getting clients to pay their bills on time is a major challenge that forces you to confront a bewildering array of fee arrangements, billing of non-fee expenses, and ethical constraints stemming from the attorney-client relationship.

How this policy helps you:

The centerpiece of juggling all of these requirements is to establish a policy that tells clients how they will be billed for the services they receive. In addition to laying the legal ground work for billing and collection, a well-crafted billing policy plays a key role in providing effective communications with clients and preventing misunderstandings that can fester into nasty payment disputes.

How to use this policy:

This Model Policy is based not on any single example but a “greatest hits”-type of amalgamation of best practices from actual policies used by law firms across the U.S. Of course, no two practices do all things the same exact way. So you’ll need to modify the Policy—particularly the provisions regarding the different kinds of fee arrangements—to your own circumstances, e.g., by deleting the section on contingency fees if your attorneys don’t enter into contingency fee arrangements.

Client billing policy

XYZ Law Firm

1. Statement of policy

The attorneys and staff of the XYZ Law Firm are pleased to welcome you to our practice and to let you know that we are dedicated to not only providing you the very best legal service but to ensuring that your client experience is a pleasant one.

2. Purpose of policy

The XYZ Law Firm has developed these financial policies to help you understand our client billing policies and procedures to avoid any miscommunications about the handling of your legal bills and accounts. Being familiar with and following this Policy will go a long way in ensuring you a pleasant client experience and maintaining the understanding and respect that are so important to the attorney-client relationship.

If you have any questions or do not understand any aspects of this Policy, please contact the XYZ Law firm [*list contact person(s) or department and information*].

3. XYZ Law Firm's billing cycle

XYZ Law Firm's procedure is to perform invoicing on [*a bi-weekly basis based on services performed in the previous two weeks*], including expenses incurred on your behalf. You will be notified of any changes in the billing arrangements and policies set forth in the statement in the accompanying engagement letter.

4. Fee billing arrangements

The XYZ Law Firm enters into the following kinds of billing arrangements with its clients.

- a. Retainer fee:** You may pay a retainer fee to keep the XYZ Law Firm or any of its attorneys "on-call" for you to deal with small or routine matters as they arise. Retainer fees must be agreed to in advance and may include a premium rate or additional fee in consideration for XYZ Law Firm's agreement to afford you top priority (and pushing back other XYZ Law Firm clients) if and when you need urgent assistance.
- b. Flat fee billing:** XYZ Law Firm will quote clients a flat fee rate or structured fee for performing services such as contract review, document drafting, licensing and business

entity document processing, and the like. Flat fee or structured fee arrangements must be agreed upon prior to our commencing the work. If no such arrangement is in place, you will be billed on an hourly basis.

- c. Hourly billing:** When you become a new client, your initial bill will reflect up to one hour of expended but unbilled time. In extending this discount, you are not billed for up to one-half hour of the initial consultation and up to one-half hour of the efforts expended by preparing engagement letters and establishing a new account in the administrative and billing systems. You will be billed for all time expended on your account above the initial discount extended to you, including without limitation, time spent during the initial consultation, time spent traveling, and any time spent by XYZ Law Firm on your matter, such as, for example, time spent: in in-person meetings or telephone consultations with you or others, research, preparing documents, developing strategy, and consulting with other professionals, etc.
- d. Contingency fees:** XYZ Law Firm attorneys may agree with you on contingency fee arrangements in which the amount you pay will depend on the outcome of the case, for example, a set percentage of the damage awards you win in a personal injury lawsuit.

5. Billing of non-fee expenses

- a. What other expenses include:** In addition to the time spent on your matter, your bill will include costs incurred by attorneys in representing you, such as messenger deliveries, postage, filing fees, transcripts, copying or document management, printing costs, travel, and related expenses such as meals and lodging.
- b. Billing rate:** Such expenses will be billed at the firm's cost but XYZ Law Firm reserves the right to charge an additional 3 percent administrative fee for these services.
- c. Out-of-pocket billing arrangements:** Out-of-pocket charges will be sent directly to you for payment or, if you prefer, a separate expense retainer account can be established for you to hold funds in an escrow account for the purpose of paying these expenses.

6. Payment

Please review our invoices when you receive them so that you may raise any questions you may have in a timely fashion.

- a. Deposit of retainer:** After the initial consultation, and identification of the issues and proposed course of action, and prior to commencing work on this case, your attorney may require you to deposit a retainer fee with XYZ Law Firm based on the estimated expenses and costs for the service or for up to one month of representation on an issue. These funds will be held, pursuant to [*list state*] law, in a Lawyers' Trust Account (IOLTA), and you will be provided with a monthly statement of fees, costs, and expenses. You are responsible for paying fees, costs, and expenses in excess of the funds held on your behalf. Any unused portion will be refunded to you.
- b. Payment plan:** XYZ Law Firm may establish payment plans. Such plans must be agreed to before you receive legal services and may cover only attorney fees—not to out-of-pocket expenses and costs, which you will be expected to pay either in advance or immediately after you receive an invoice for them.

7. Charges and fees

- a. Late payments:** Payment is due on receipt and, except as expressly agreed to otherwise, is not contingent or dependent on the outcome of the engagement. If an invoice remains unpaid after 14 days, it shall accrue interest at a rate of 12 percent per annum (1 percent per month) on the unpaid balance from the date due. If an invoice remains unpaid after 30 days, a monthly charge of 3/10ths of one hour (at then current undiscounted usual and customary hourly rate) may be billed for the ongoing administration of the past due account related to account maintenance, postage, and ongoing collection efforts. Such amount will be added to the invoice.
- b. Returned checks:** For each and any check that is returned as unpayable, you will be invoiced an administrative fee of 75 dollars (\$75).
- c. Past due account administrative fee:** For each billing cycle after which the first invoice becomes due, a 25 dollar (\$25) administrative fee may be invoiced by XYZ Law Firm to cover ongoing administrative expenses.
- d. Cancellations/no-show appointments:** Failure to keep a scheduled appointment will result in your being charged a no-show appointment fee of 30 billable minutes or the time scheduled for the meeting missed, whichever is greater. To avoid such fees, you must call the XYZ Law Firm office [*list contact information*] at least 24 hours in advance.

8. Interest on Lawyers' Trust Accounts (IOLTA)

XYZ Law Firm participates in the [list state] state bar's Interest on lawyers' trust accounts (IOLTA) program, under which funds deposited on behalf of a client that are nominal in amount or expected to be held for a short period of time are deposited in an interest-bearing trust account with the interest generated will be remitted to the [list state] State Bar to fund programs for the public's benefit. Such deposits are governed by [list state] law and the rules of the [list state] Bar Association IOLTA program.

9. Right to terminate your representation

- a. Termination for failure to pay:** Failure to pay invoices within 15 business days is grounds for XYZ Law Firm and its attorneys to terminate its representation of you and cease working on your matter. Notice of termination will be provided with due notice in accordance with our legal and ethical obligations.
- b. Termination at any time:** Either of us may terminate your engagement with XYZ Law Firm at any time for any reason by written notice, subject on our part to our professional obligations to you under applicable rules of professional conduct. After termination, you will receive a final statement for services rendered in this matter.

Unless you engage your attorney after termination of this matter, there is no continuing obligation to advise you with respect to future legal developments, such as changes in the applicable laws or regulations that could have an effect on your future rights and liabilities.



In conclusion

Managing your law firm's billing and collections can be a complex and challenging task. However, by following these seven proven strategies, you can make the process more efficient, profitable, and less stressful. By offering clear invoices, billing promptly, offering electronic payment options, using a retainer system, monitoring your accounts receivable, offering discounts for early payments, and hiring a collection agency when necessary, you can improve your cash flow and ensure that you're paid for the services you provide.



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