



Do You Know Your ADO (Average Days Outstanding)?

Matt Bowers, Regional Sales Manager, RainMaker Software, Inc.

Many law firms have started to re-evaluate their internal processes relating to new matter intake, timekeeping, work in progress (WIP), billing procedures and collections management in order to shorten the revenue cycle. Use the following guidelines to automate the revenue cycle, reduce the firm's investment in receivables, ensure a better cash flow and minimize losses.

New Matter Intake:

When looking for long-term solutions to improve cash flow and minimize losses, firms should start by focusing on new matter intake.

Firms should begin by establishing a "checks and balance" system by using automated workflow procedures. For example, through the use of electronic workflow, firms can create an "approval step" where an assigned person can verify that a client matter has exceeded a percentage of over 60 days. Since that is the case in this scenario, the approval will be denied and returned to the originating attorney and the collections department for additional review. By automating new matter intake, firms can greatly reduce the time it takes to get a new matter started which equates to quicker bill generation.

Timekeeping:

Another way to enhance a firm's cash flow, and avoid fee disputes, is to adopt rigorous timekeeping procedures that require compliance from all timekeepers. Easier said than done? The use of intuitive time-entry modules can make it much easier to accomplish.

Daily entry of time is critical to a firm's financial health. For example, if each lawyer in a 100-attorney firm lost 30 minutes of billable time each day, the firm would lose 250 hours per week. If the firm bills an average of \$175 per hour, it would lose a staggering \$2,275,000 per year!

Time Entry with Easy-to-Use Tools:

In order to allow attorneys to maximize their billable time, time-entry should be quick and intuitive. A list of "My Favorites" or "Recently Used Matters", consisting of the last 10-20 (user-defined) matters, should be available to each attorney. Further, a "timer function" will allow attorneys to track the time spent on particular matters and ensure timely entry of all matter detail. The ability to automatically split time between multiple clients and matters is also a handy tool.

The use of a customizable calendar for each timekeeper should show entered time by day, week or month. The calendar options should also display daily summaries for entered time as well as both released and unreleased time.

For mobile timekeepers, remote time-entry through a Web application allows timekeepers to access their matters and clients from any PC with Internet access or through a wireless mobile device, such as a Blackberry® or Palm™.

Invoices:

For many firms, retooling invoice formats can significantly improve cash flow. All too often legal bills look like letters “informing” clients of their current balance, rather than the invoices that they are. Some clients require special bill formats or phase and task codes to ensure payment.

Through the use of a “bill designer”, firms can create custom invoices, without the cost of custom programming or the time consuming task of editing bills in Microsoft® Word. With a “bill designer” firms have the option of providing pre-bills, bills, statements and cover pages that reflect their firm's branding. Firms can decide what information appears on bills and exactly where that information will be located, using simple drag-and-drop functionality. Clients will be impressed that they are consistently receiving bills in the format they require. Consistency in bill appearance and adherence to client requirements are key factors in reducing your firm's “**Average Days Outstanding**” (ADO).

Collections:

Even with effective procedures in place, clients will still fall behind in their payments. So, every firm still has to consider how to best collect delinquent fees. Attorneys tend to have difficulty pursuing collections due to the delicate client/attorney relationship. However, not placing enough emphasis on collections can result in a staggering outstanding A/R for the firm.

The United States Department of Commerce states that the ability to collect on A/R decreases from 94% for invoices 30 days old to 74% for invoices 90 days old. Most firms do not even know what their “**Average Days Outstanding**” is. Intuitive collection reports allow firms to accurately determine their **ADO**. As the chart below illustrates, reducing your **ADO** by as little as 10 days can provide enough ROI to pay for investments in the A/R software.

Average Daily Billings <i>\$10,000</i>	
Average Collection Period	Investment in Accounts Receivable
30	\$ 300,000
40	\$ 400,000
50	\$ 500,000
60	\$ 600,000

Automated Collections Module:

An automated collections module is essential to a firm's successful collection efforts. The automation allows firms to: determine which clients require collections

assistance, schedule follow-up calls and automatically generate demand letters and/or emails on behalf of the collections department.

Additionally, firms can establish business rules based on certain criteria to ensure proper handling of their collection efforts. For example, a firm can establish specific business rules based on the amount a client owes as well as the days outstanding. (A client who owes \$60,000 over 120 days and has not used the firm in 6 months vs. a client who owes the firm \$60,000 over 30 days and has used the firm within the last 30 days.)

By having the ability to automatically image all client invoices will further simplify and enhance collection efforts. The electronic invoice enables collections staff to be prepared when clients "can't find their invoice".

Reporting capabilities that provide a "big picture" view as well as drill-down capabilities for more detailed information will help the firm to understand all of the variables that contribute to outstanding A/R.

In conclusion, all of the functions outlined here will help firms to shorten the cash flow cycle, minimize losses and develop more efficient invoicing procedures leading to increased revenues and an outstanding ROI.

About the Author

Matt Bowers is a Regional Sales Manager for RainMaker Software, Inc. RainMaker provides proven, practical and progressive Financial Management, Practice Management and Business Intelligence to mid-to-large sized law firms and legal departments. For more information about RainMaker Software, Inc., visit the company's website at www.rainmakerlegal.com.

Microsoft Word is a registered trademark of Microsoft Corporation in the United States and/or other countries.