ANALYSIS

For Many Law Firms, Collections Season Is Now 12 Months Long

The ability to duplicate last year's landmark financial results will likely turn on the success of recent investments in billing efforts.

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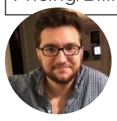
Pricing/Billing Rates



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Reporter

What You Need to Know

- Many local law firms in Philadelphia say the collection season is now year-long as billing practices become more disciplined.
- New ways of monetizing legal work beyond the billable hour have accompanied this greater sophistication.

Historically a fourth-quarter frenzy filled with uncomfortable conversations with clients, collections have become a year-round endeavor for many Pennsylvania law firms, who have made significant investments in finance teams tasked with developing bespoke payment solutions on a client-by-client basis.

But whether firms will be able to match or exceed their revenue and profit gains from 2021 will largely depend on their ability to see a return on investments to their billing and collections functions at a time when many clients are dragging their feet on making timely payments.

“Most of the CFOs and staff beat up on attorneys as the fiscal year comes to a close; we've gotten away from the end-of-year collections phase to make it a year-round approach,” said Steven Pachman, managing partner of Montgomery McCracken Walker & Rhoads.

Pachman said the firm ”has worked with non-attorney billing staff to turn the typical end-of-fiscal-year collection phase into a 12-month endeavor by allocating additional resources to billing and collection.”

He said this has included moving to an “incentive-based approach wherein timely billing and collection efforts are expressly tracked, recognized and rewarded” for timekeepers.

According to recent interviews with law firm leaders, many are expecting one of the strongest years ever for profits and revenue, albeit lower than the aberrational gains that characterized last year, while others said they expect the upward trend to continue even further.

Corporate practices continue to be stimulated by softened deal valuations and troubled asset transactions, providing cross-collaboration opportunities with real estate, intellectual property and investment management practice groups. Meanwhile, various types of litigation have ticked up this year with courts fully open, giving firms stable inventory heading into the new year.

But headwinds are also being felt this quarter. Compensation expenses have piled onto the reversal of pandemic-era cost savings, demand has slumped compared to the heights of last year and inflation has hindered the ability of some clients to pay legal bills.

“Last year was a blowout year for law firms; that's going to be a tough year to beat,” said Gillian Facher, executive director at Stradley Ronon Stevens & Young, noting that expectations for her own firm are to meet revenue targets set by historical work rates.

Facher said Stradley Ronon's trademark investment management practice—retained by entities like Vanguard, Franklin Templeton, Invesco and Macquarie Asset Management—does well in economies good and bad, providing the firm's corporate and litigation groups an overall layer of stability. And tax work is unsurprisingly “way up,” she said.

“If the transactional practice is up, then your tax work is going to be hot as well,” Facher said.

Robyn Henry, director of administration for litigation boutique Conrad O'Brien, said although the firm's lawyers are working more hours with the same head count, collections are “slightly” down this year due to clients struggling to pay and a greater volume of contingency work that won't pay out until next year.

Billable hours year to date as of Sept. 30 were up while collections were down at Conrad O'Brien, compared to the same time period last year, because of one big contingency case, Henry said.

“People were working hard and we knew this would be an investment of time,” Henry said. She said that at 10%, the volume of contingent matters is higher than it's ever been for the firm, and it is likely to hold off on taking any more until the volume of contingency cases recedes.

At the same time, Henry said the firm is facing pressure from clients to discount rates and elongated billing cycles due to their own inflated costs. The firm works to provide payment plans for client on an individualized basis.

“While we understand that the client is struggling to pay the bills, they need to understand the bills pay our business. That's where we'll try to do a payment plan,” she said.

"If they can't, we'll talk about chipping away at the bill," she continued. "As long as we continue to see payment, we'll continue to work on the case. If not, that's when we'll discuss internally if it's a case we can proceed with. That's a last resort."

In recent years, Henry said the firm closely monitors the payment of retainers because "if they struggle to pay the retainer, we know that might not be a great engagement."

At Montgomery McCracken, contingency fee work isn't factored into budgeting, and the volume of contingent matters is minimal, less than 5% of revenue, Pachman said, describing it as an extra boost on top of the firm's annual gains.

"We have a couple contingency fee matters in the pipeline which would make a very good year that much stronger," Pachman said. "It's so tough to predict when the payment of a contingency fee will come."

Running a Firm 'Like a Business'

Over the last decade, law firms have increasingly invested in non-lawyer finance professionals to help yield the most revenue on a matter-by-matter basis.

Ten years ago, when when Henry joined Conrad O'Brien from Cozen O'Connor's litigation practice where she worked as a business manager, human resources experience was one of the most sought-after attributes for non-lawyer business administration professionals.

But over the last decade, the needs of the firm have shifted toward finance professionals. In fact, when Conrad O'Brien's HR director left the firm, firm leaders opted not to find a replacement and the functions she oversaw came under Henry's oversight.

"The people in my position who are retiring now were really good paralegals and non-finance folks," Henry said. "They didn't necessarily have a finance background. My boss was looking for a professional role with a little bit more of a background in finance."

She continued: "Law firms are now run like a business. It used to be that the partners were making all the decisions about the company. Numbers matter more: What is your revenue per lawyer, profits per partner? And changes in the staff at the organization have to respond to that."

For Ballard Spahr, pricing continues to be an area of the firm "where we constantly need support," said Melissa Prince, the firm's chief client value and innovation officer.

Prince said so much of what her 40-person client value and innovation team performs is developing a menu of fee structures in response to clients wanting several different options to pay for legal work. Standard hourly rates, fixed and capped fees and monthly retainers are all on the table, she said.

"We're moving more and more away from the billable hour," she said, estimating that 20-30% of the firm's revenue comes from alternative fee arrangements.