

How Far We've Come — How Far We Have to Go

As we look back on the 12 years we have been helping law firms manage their accounts receivable, we are pleased to note the progress law firms are making to improve their accounts receivable management efforts.

Many law firms have already created or are starting to create an A/R management infrastructure to enhance their revenue. As a part of the infrastructure, firms have adopted mechanisms to track their efforts and have established reporting systems by which firm management can measure progress.

Firms have assigned or hired staff dedicated to the collection efforts, or retained outside consultants to manage those efforts. And many have purchased collection software to track and manage their receivables.

Yet, while we see how far we've come, we recognize just how much has yet to happen. It's true that many firms are putting the infrastructure in place, but that infrastructure so often is not supported by the commitment and the change in mindset necessary to increase revenue by effectively managing accounts receivable. Too often, infrastructure exists in name only; there are no teeth to the effort. Many firms still suffer from a backlog of receivables they are not collecting and are simply not doing enough to reduce these problems.

So often missing amid the sophisticated infrastructure is the will of the law firm to understand that managing accounts receivable is a step-by-step process that requires aging receivables to be closely monitored, managed and analyzed until payment is made.

It has been awhile, so many may have forgotten what it feels like, but all indications are that we're in for some difficult economic times ahead. Institutional and non-institutional clients alike may find it hard to keep up with their bills, or simply choose not to make their law firm's invoices a priority. The current state of the economy is too shaky for firms NOT to explore all opportunities to increase revenue.

Too often law firms take a relaxed attitude in managing their receivables because they feel the infrastructure will take care of things. Therefore, a vicious cycle is perpetuated. Lawyers are not vigilant in getting their clients to pay. Clients take advantage of a situation where there are no clearly defined expectations. The lawyers are reluctant to press their clients, and so on.

It is critical that an accounts receivable management infrastructure work on all cylinders because, unlike other kinds of businesses, the business of selling legal services does not lend itself to strict purchase and payment rules. The accounts receivable infrastructure must manage complicated transactions and equally complex business relationships.

So while considerable progress has been made up to this point, it's time to focus anew on taking the steps necessary to focus on collecting aging receivables and preventing problems from

recurring. Or everything that has been set in place is just paying lip service.

Whatever the size of your firm, going to the next level requires a focus on four areas:

(1) Leadership and Governance –

Determine if you have the appropriate governance structure in place. Effective receivables management needs to start from the top. The firm needs to put the right people in leadership positions. They need to have the ability to tell attorneys to address their collections, and the will to hold the attorneys accountable for their inactions (or lack thereof). Demanding real accountability can be tough, but pursuing payment of aging receivables is much tougher – and it greatly reduces the chances of getting paid. Receivables that are over 120 days have a 50% chance of getting collected; that percentage drops dramatically as they continue to age.

The harsh reality is that many firms are losing revenue by giving attorneys too much individual autonomy in making sure bills get paid. We wonder when firms will stop tolerating “good clients” who just don't pay their bills. When are they going to stop permitting clients to pay slowly without asking why? When will they start dictating the terms of payment rather than the clients?

Additionally, attorneys are given too much leeway in dealing with their clients during the first 11 months of the year, only to have their feet held to the fire during the year-end stretch. With many firms having millions of dollars well over 90 days past due, the traditional culture of forgiveness needs to be replaced with a culture of high expectations to increase revenue through better collection efforts throughout the year.

There are no quick fixes in receivables management. Even the best governance structure cannot quickly collect itself out of collection problems. This is a roll-up-your-sleeves job that requires spending time going over collection efforts for certain balance levels. The right people must be in place from top to bottom, people who will devote the necessary time and perform the requisite follow-through when working with attorneys who bill.

(2) A Focus on Best Practices –

Direct relationships, frequent contact and an open dialogue are the most effective way for law firms to get paid. Quickly determining if a client

has the means and commitment to pay their bill is the best strategy in getting paid. Yet, while there are clients that pay like clockwork, others, if offered an inch, will take a mile. The number one reason clients do not pay their bills is cash flow problems. Therefore, consistent phone calls and e-mails early in the aging process is the key.

Remember, managing collections in a law firm is a process that must be monitored very diligently. Clients will not be offended when a friendly, professional contact is made inquiring about the status of payment. They will notice that the firm is closely monitoring their payments with direct one-on-one inquiries.

In addition, firms need to make a candid assessment of who inside – or outside – their organization can most effectively contact clients. There are reasons to give this responsibility to the attorneys themselves: they have a professional relationship with their clients, and they understand their issues and transactions. But they are very busy and don't make getting paid for their work a priority, they often do not like asking their clients for payment, and they are not held accountable for the timely management of their receivables.

When firms enlist their support staff to help contact clients, they should have the desire and training to do this work. Their priority is to determine payment status, and clients frequently prefer speaking to someone other than their attorney about payment issues, someone who has the experience, know-how and personality that represents the attorney well with their clients. The best collection staff, who combine tenacity and professionalism, earn the trust of the attorneys with whom they work. They must be given the directive to ask clients to pay their bills, and they need to have direct contact with the clients to do so effectively.

They must be held to a level of accountability, but for different reasons than the attorneys. If the firm and attorneys make decisions to have staff contacting clients directly, the staff must not have too many other responsibilities that keep them from dedicating themselves to contacting clients about payment. Too frequently, staff find that their job has become a diluted clerical function in which they assist attorneys in sending meaningless letters and reminder statements.

An alternative is to hire outside professional consultants to work with the attorneys in managing their accounts receivables. These are trained professionals who strictly work with the legal profession and have become a resource to many firms.

(3) Good Information –

You may be gathering a lot of information relative to your collections, but determine whether you are getting the **right** information. At a minimum, you need to know if an account is actively being pursued and what is the payment status, who is pursuing the collection efforts and whether they are getting results, why clients are not paying and what needs to be done to get them to pay. Firms that are successful in managing accounts receivable are those that regularly review updated information on the client payment status in order to act quickly. At minimum, categorize receivables to determine: (a) Is it collectible? If so, when can we expect payment? (b) Is it problematic? How good are the chances we will get paid? – or (c) Is it simply uncollectible?

Study your firm's economics to assess trends and patterns that help you identify which clients have payment problems. However, accounts receivable management is not just reading the numbers, but also using reports to understand the clients' stories and the relationships behind the numbers.

(4) Appropriate Software –

If you are currently using collection software, are you using it effectively? Accounts receivable management for the legal profession is all about managing information and determining at what time you can expect payment. Too often, software is used just to generate letters and reminder statements. Software should help you track clients' payment expectations. Make sure your people know how to use it and management knows what to expect from it.

But recognize that software is just a tool to help you get your financial house in order; it will not collect receivables for you.

Do you have a question regarding your receivables? Please send your question via e-mail to jakek@clientc.com and one of our professionals will respond, free of charge. At Client Connection, we know how to manage receivables, and we would be happy to share a little of our knowledge with you.

If you would like to receive future Client Connection newsletters via e-mail, please send our president an e-mail at: jakek@clientc.com.

Client Connection assists law firms of all sizes throughout the United States by furnishing accounts receivable management services, developing practical receivable programs, training law firm staff in effective collection methods and executive placement of professional collections managers.



5912 Hilton
Plano, Texas 75093
800.236.8232
Fax: 972.378.0407

Regional Offices:
Chicago, Houston, Los Angeles, Nashville, New York, Washington, D.C.

Or visit us at our website – www.clientc.com