

What We Learned from 2009 – And How That's Going to Help Us in 2010

For most law firms, 2009 was a tough year – on so many levels. But what's done is done. Now is a good time to determine what law firms learned last year so adjustments can be made, lawyers can be educated and changes can be implemented.

The bigger question we can ask ourselves is have we learned from our mistakes in managing our accounts receivable, and are we ready to make the changes that must be made?

Many of the problems firms experienced revolved around cash flow. Clients were slower than usual to pay their bills. A greater number of them struggled to pay at all. As many firms continue to strategically plan how to ensure strong revenue, they must learn to clearly see that a productive, workable accounts receivable program can make all the difference in their efforts.

While most of us were glad to see 2009 recede into the sunset, there are many signs that 2010 will be, in many ways, tougher yet. Therefore, now would be as good a time as any to take the steps necessary to address fundamental issues concerning your accounts receivable. Don't wait until times are tough to face these issues. But the reality is that when the good times are rolling, it's easy to overlook these concerns. These days, however, there is little room to overlook them. Hence, we offer recommendations for action steps you can start taking immediately.

Start Actually Managing Your Receivables Rather Than Simply Expecting Payments to be Made

We have all learned that strategic planning is most effective when times are good, instead of waiting until times are hard. In such times, law firms start turning over every stone to find sources of revenue. What better stone to look under than unpaid receivables. Law firms are accustomed to looking at receivables financial data only on a superficial level, instead of spending time looking

beneath and beyond the numbers to determine if payment can be made. Step up to the plate. You will be surprised by what you discover.

Perform a Self-Evaluation to Figure Out What You Are Doing Right – and What You Could Be Doing Better

Perform a thorough self-assessment of your receivable policies and procedures. Take stock of what you are doing and why, and evaluate what is working. Many firms that have assumed they have the right infrastructure in place discover that what they have is flawed; some discover they really don't have much of an infrastructure at all. Look at everything, from intake procedures to collection software capability, to whether attorneys are actually doing a good job collecting their bills. An important aspect of this is assessing whether you have the right administrative staff, with the right skills, in place to do the job. In addition, understand that everyone managing receivables must be held to some standards of accountability to ensure progress is being made.

Understand Why Clients Are Not Paying Their Bills in a Timely Way

Why aren't clients paying? It all comes down to problems with cash flow. However, such problems are often masked, intentionally or not, by other issues, such as poor service, bills that are higher than expected, or bills that were never received. From the start of the relationship, firms and their lawyers must understand their clients so that, when problems do arise, they can get to the source of the problems and resolve them. Although aged receivables are part of the financial report, it is all the stories underneath those numbers that firms need to get a handle on, so they understand why clients are not paying.

Keep the Lines of Communication Open With Your Clients

It is vital that your attorneys communicate with clients

continued on back

Check our website –
www.clientci.com
to review and
download past
Client Connection
newsletters. If you
would like to receive
future newsletters
by e-mail rather
than through the
mail, please send
an e-mail to
info@clientci.com

throughout the course of the relationship. From the start, find out if clients have reasons they will have trouble paying their bills. And that communication must be a two-way street, where the attorneys are listening to what clients are saying as much as they are talking. As soon as they sense that there is a problem, they should reach out to the client to understand the cause of the problem and what steps will be needed to remedy it. And...

Keep the Lines of Communication Open Within the Firm

You must maintain a continuing dialogue among all attorneys and staff who have responsibility for collections. Mid-size and large firms need to establish a functioning collections committee with effective leaders, a committee that meets regularly and honestly discusses the probability of payment from clients.

Send Out Accurate Bills on a Timely Basis

Sounds pretty basic, no? However, the reality is that invoices that are incorrect in one way or another, or that go to the wrong person, slow down the process. If you expect your clients to respond timely, make sure you are sending them out in a timely manner. And see that they are getting in the right hands. Too many times, people move on or change position, and bills get lost in the shuffle.

Ensure You Are Looking at the Right Information

Most firms have gotten used to looking at an abundance of financial information and ageing reports to evaluate their progress in managing receivables. Although some of this information is good, many reports do not show when payment can be expected. At minimum, you need to know if an account is actively being pursued, what the payment status is, 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. Categorize receivables to determine whether they are collectible. If so, determine when you can expect payment; is it problematic; how good are the chances you will get paid. If particular receivables are simply not collectible, recognize that and move on.

Don't Let Receivables Age Too Long

Ageing receivables are a moving target, one that must be monitored and managed closely to prevent ageing from going too far. Firms see a build-up of receivables over 120 days and decide that they have a collection problem, when the truth is they had a problem much sooner but never addressed it. The problem of receivables not being managed adequately is magnified because this applies to many accounts, not just a handful. Ensure that clients are contacted early in the ageing process, and that they are receiving consistent, professional follow-up. This keeps open channels of communication and will help your firm determine early if there is likely to be a problem getting a bill paid.

Don't Underestimate the Payment Power of Small Balances

All balance levels are fair game to be pursued. In the past, many firms have had a tendency to focus collection efforts on larger balance accounts. However, the beauty of pursuing small balances is that there are many to pursue and often clients will have the cash flow to pay off those lower amounts without feeling they are straining their budget. Depending on the size of the law firm and its practice, small balances can range from \$500 to \$5,000. If the amounts are higher, be very open to helping clients with payment plans that meet their needs and will chip away at regular monthly payments.

Institute a Program to Manage Accounts Receivable NOW – Early in the Year

Long before year-end starts ratcheting up the pressure, put procedures in place. Firm leadership is important here, and individual autonomy should be left to sole practitioners. Make it a point to stop managing your accounts receivable as you have in the past. Start with the premise that all clients are feeling the impact of the economy.

Do not put it off any longer. Take the actions necessary to start turning around the situation. It promises to be a challenging year, but there are concrete steps you can take now to improve your fortunes.

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.

CLIENT CONNECTION
Strengthening Your Bottom Line

5912 Hilton
 Plano, Texas 75093
 800.236.8232
 Fax: 972.378.0407

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

Or visit us at www.clientci.com