

WHEN BAD THINGS HAPPEN TO GOOD LAW FIRMS

8 Mistakes in Managing Accounts Receivable During the More Challenging Year Ahead — and 8 Solutions

For most law firms, 2000 was certainly a good year. However, all signs point to a slowing economy, and firms will likely not enjoy quite as good a year in 2001.

While many firms did make their budget last year, many others did not. Now — early in the year — is a good time to learn from past mistakes and make changes for the future.

Mistake #1:

Firms project big budgets to offset higher costs. What they have chosen to ignore is that a softening economy is compelling client companies to reduce their cash reserves, out of which they pay their legal bills. And clients are clever. Some choose to slow their payment of legal bills — or don't pay them at all. They know that, historically, few firms have held them accountable for paying.

Mistake #2:

Firms continue to take on new clients with little or no assurance that they will pay their legal bills. Because intake procedures are poor, it ends up being the clients rather than the lawyers who dictate when — and sometimes if — they will pay.

Mistake #3:

Firms continue to accrue large amounts of unbilled time and expenses. Most clients actually want to be billed on a monthly basis. Lawyers do not understand that if they send bills only when it is convenient for them, their clients will pay at their convenience.

Mistake #4:

Lawyers fail to understand that if they see that bills have not been paid within 30 days, they are seeing the first warning sign of a collection problem. If the firm does not take action to get that bill paid, it could

easily go past 90 days. Clients conclude that if the firm has waited several months to try to collect unpaid bills, they need be in no rush to pay them. They reason — and, unfortunately, they are not wrong — that the longer their lawyers wait to collect, the greater chance they have of having their bills discounted or written off altogether.

Mistake #5:

Firms have been perhaps too quick to embrace alternative payment arrangements. Complex transactions may not lend themselves to a regular payment schedule, and they may cause confusion as to appropriate payment if the deal does not come to fruition. Furthermore, risky deals sometimes fail, leaving a trail of unpaid receivables.

Mistake #6:

As lawyers continue to be inundated with work, they can get lost in the moment. They become so wrapped up in their work that they fail to recognize a point at which they should stop doing that work rather than continuing to amass unpaid bills.

Mistake #7:

As part of their effort to “push the work down,” senior attorneys often pass responsibility for billing and collections to lower-level attorneys. This is not necessarily a bad thing in itself, but it is unless they provide proper training.

Mistake #8:

Accounts receivable reports are being ignored until the year-end push. Whether the attorneys don't receive the reports or simply are not paying attention to them, the net result is that they are having little impact.

The fact is that the cost of doing business continues to increase. Just to stay competitive, firms are faced with the escalating cost of associate salaries and changing technology.

Not only are many firms carrying as much as 40% of their receivables over 90 days, but they have no clue how much of that 40% they can reasonably expect to see paid. Some of these receivables are actually more than a year old, which should be collected or written off altogether. Keeping these receivables on the books gives a false sense of the firm's true assets.

Complicating matters, some firms got caught up in the dot.com craze where everyone with an idea creates a new venture, and legal bills did not always get paid. Even more troubling, now clients will be impacted by the softening economy, and may begin having more trouble paying their bills on a timely basis.

For the good news . . .
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The good news . . .

is that a law firm's problems with high aged accounts receivables can be fixed. The not-so-good news for not-always-patient lawyers is that the fixing takes time. A firm's culture, which allows receivables to age, cannot be changed overnight. But there are ways to remedy these mistakes. Part of the solution is to run law firms as the businesses they are rather than collegial professional service organizations that do not focus on getting their bills paid. In addition:

Solution #1:

Don't make the mistake of thinking your firm can collect itself out of a receivables problem. Taking decisive action to collect aged receivables may help cashflow in the short term, but without fundamental changes to prevent collection problems, the lawyers will quickly return to their bad habits and the firm will find itself in the same dilemma down the road. Long-term remedial changes must be made. The firm must fully evaluate its client/matter intake process as well as its system for identifying problem receivables early on and taking action before it is too late.

Solution #2:

Forget historical patterns of bill collections in which you safely assumed that collections would increase as the year progresses. On a monthly basis, firm management needs to measure monthly revenue projections, and it must be realistic about whether the firm is underachieving in its collections goals. Also, remember that just because billings are high does not guarantee that collections will be high, too.

Solution #3:

Identify bills that you can get paid. The reports still used by many firms do not clearly differentiate between receivables that are likely to be collected and those that are not. Receivables should be categorized: (1) those that are collectable, (2) those that are problematic, and (3) those that will not be collected.

Solution #4:

Institute prequalification of clients by reviewing credit reports and financial statements. Trained staff should be able to evaluate the creditworthiness of new clients and set credit limits. Establish "credit thresholds" on how much clients can run up on their bills before work is halted. Make clients aware of these thresholds.

Solution #5:

A good test of the client's ability and willingness to pay is whether they can and will pay a retainer. Teach attorneys that making efforts to get paid for work done is hardly unprofessional. Clients will not be offended.

Solution #6:

Teach both your attorneys and your clients. Train attorneys and hold them accountable for following new billing and collection guidelines. Training should include younger attorneys — your future partners. The message must be made clear to all attorneys: it is no longer acceptable to let clients pay whenever they choose to. At the same time, teach clients that their unpaid bills are being monitored. Create a system in which trained staff members contact clients when a bill has aged past 30 days to find out when it will be paid.

Solution #7:

Identify practice areas that have particular difficulty collecting their receivables and analyze why clients are not paying their bills. Pay close attention to practices with non-institutional clients that may have cashflow problems. Hold the attorneys accountable.

Solution #8:

Equally important, identify your lawyers who have particular difficulty managing their intake and receivables. Keep a sharp eye on their receivables. Either provide them with assistance or take responsibility away from them altogether. Let them know that while a blind eye could be turned on mismanagement during the recent very good years the firm experienced, it will not be tolerated in 2001.

Do you have a question regarding your receivables? Please send your question via e-mail (clientc@earthlink.net) 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.

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.

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