

THE PERILS OF OLD AGE: FACING UP TO RECEIVABLES THAT HAVE GONE BEYOND AGING, AND ARE JUST PLAIN OLD

Getting old is a frightening prospect for us all. Aged receivables have their own perils, and it is about time that law firms look them squarely in the face. A dirty little secret concerning collections is that a significant portion of law firm receivables are not simply 30, 60 or 90 days late.

We need to make a distinction between an **aging** receivable and one that is downright **old**. The aging receivable may not just be slightly more than 90 days past due. We are talking here about those that are considerably past 90 days old – sometimes multiples of that.

When receivables get that old, the typical response in law firms is to ignore them rather than take action

to collect them or write them off. Sometimes firms with sizeable amounts of old receivables have a false sense of well-being, believing that there is a lot of money coming to them when the truth is that a large portion of it will never be collected. The key is to understand the firm's true finances, face up to problem receivables, deal with them and resolve them once and for all.

CONSIDER THESE 10 PRODUCTIVE STEPS:

1. Honestly evaluate the age and the balances of the receivables. Is a receivable over 90 days, or is it really over 360? Acknowledging there is a problem is the first step toward resolving it.
2. Decide whether it is productive to focus on all the old receivables or to focus on those over a certain dollar amount. We recommend being realistic and establishing a cut-off, such as \$1,000, \$5,000, etc., depending on how high the majority of the balance levels are for the receivables. The accounts below that minimum may not be worth your effort to deal with them. Your collection software should be able to make these distinctions for you.
3. Contact all attorneys and ask them to review their clients with outstanding balances. Tell them up front that you are looking for the truth from them, not posturing or obfuscation. The point is to take action: either make the collection or clear the books. The attorneys are in the best position to make a realistic assessment of whether a receivable should be kept on the active list or written off.
4. Evaluate each account and determine the likelihood of payment if the firm invests more time and effort to collect. Don't kid yourself about the reality of collecting an account. When a receivable exceeds 180 days past due, there is only a 50% chance that you will collect it, and the percentage drops off dramatically after that. There may be a logical reason why it has not been paid. Perhaps the client does not have the ability to pay and the attorney has turned the receivable into a contingent matter. Maybe the attorney has worked out an arrangement with the client whereby he can pay after the matter has been completed.

5. Make the decision and get the account written-off. If efforts have been made to collect with no results, accept the fact that there is little chance of getting paid and write it off. If the attorney continues to hold up the write-off process, firm leadership needs to step in and get the account written off.
6. Have the Collection Committee figure out if it needs to step in and take action. In general, the attorney is the best judge of how to handle the matter. However, there are times when the Committee must overrule the attorney. If you don't yet have a committee, give serious thought to forming one. Collections typically can't be handled adequately by one person. Get your arms around the problem by creating – and empowering – a committee.
7. Don't forget about the clients of attorneys who have left the firm. After their attorneys leave, these clients typically have no loyalty to the firm – unless the client decided to stay. Be wary of asking the departed attorney for assistance. Most likely, he is now billing the

client at his new firm, and he wants the clients to concentrate on current bills from the new firm, rather than those from the old firm.

8. Look first at your oldest receivables and work your way back to those that are newer. It can be easier to make decisions to fish or cut bait with the aged receivables, which have little or no life left in them.
9. Evaluate the firm's overall collection efforts. Ask yourselves: Did we do the job right, or did our processes and procedures allow receivables to age beyond reason? Review the firm's policy concerning receivables that go beyond 90 days. In many firms, it is a paper policy. Implementation is the key. Do you have the right people in place to help you move the ball forward?
10. Consider enlisting the services of experts in managing law firm receivables, like Client Connection, to help you tackle difficult receivables. In many cases, the more time you take to deal with your receivables, the more they age, and the harder it becomes to collect. Not only can consultants

deal with problem situations, but they can help give collection efforts the focus they require, as well as recommendations for preventing these problems from recurring.

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.

CLIENT CONNECTION 5912 Hilton Street
 Plano, Texas 75025
 Phone: 800-236-8232
 Fax: 972-378-0407
 E-mail: clientc@earthlink.net
 Internet: www.clientc.com

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