

THE 11 BIGGEST MISTAKES LAW FIRMS MAKE IN MANAGING RECEIVABLES — And How to Avoid Them

Among the tasks that lawyers are asked to take time out from practicing law for, is there anything they want to deal with less than managing accounts receivable? Many lawyers find it distasteful enough to spend time sending bills. Facing unpaid bills—and trying to get them paid—is worse. Yet, it need be neither painful nor unpleasant. By understanding—and overcoming—some basic mistakes, lawyers can become far more effective in managing their receivables. And greater effectiveness translates into both less stress and more money coming across the threshold.

Following are 11 common mistakes — and the reality behind them:

Mistake #1: Attorneys collect their bills timely and efficiently.

Actually, attorneys are concerned about servicing their clients and not about when they are going to get paid. They have been trained to be lawyers and provide quality legal work. They only have so many hours in the day and they spend it practicing law. Although managing accounts receivable should be a part of their practice management, they are not held accountable for *not* collecting them — and are given too much autonomy in dealing with them.

Mistake #2: Clients understand payment obligations.

Actually, communication problems typically begin at the start of new work. Lawyers frequently do not take the time to review payment obligations with clients before beginning work or confirm details of the work in an engagement letter, setting the stage for differing expectations from the start. 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: Collection problems begin when receivables become 120 days past due.

If bills have not been paid within 30 days, you've gotten the first sign that you may have a collection problem — and, if it is not resolved, they could well go to 120 days or more. Clients reason that if the firm has waited several months to try to collect unpaid bills, they can wait to pay them. They assume, with some reason, that they are in a better position to negotiate a discount. The longer a law firm waits to collect unpaid bills, savvy clients realize,

the more likely the bills will end up being discounted or written off altogether.

Mistake #4: As a rule, past-due receivables are caused by clients who do not want to pay their bills.

Actually, 90% of clients are perfectly willing to pay their bills, although some will take advantage of lawyers who neglect or forget to remind them to pay their bills. The truth is that though lawyers may be uncomfortable with the concept of receivables management — either by themselves or by others — clients do understand and accept the notion and are not offended by tactful inquiries about unpaid bills.

Mistake #5: When a bill is not paid, it is because the client has made a conscious decision not to pay it.

You might be surprised to discover how many bills go unpaid by clients for simple, logistical reasons, such as invoices lost in the mail. In the case of institutional clients, there may be no contact person listed or the individual responsible for approving the bill has left the company. There may be insufficient explanation of the services rendered, and the client needs clarification, or bills are sent without cover letters explaining payment terms. For non-institutional clients, there may simply be cashflow problems. Don't assume that if an invoice is unpaid, the client is unwilling to pay it. Direct communication with the client will eliminate these easily dealt with obstacles, so you can address those instances where there really is an issue preventing the bill's payment.

Mistake #6: Lawyers damage their relationships by asking clients to pay their bills.

Law firms lose clients by doing poor work or by failing to deliver client service, not by asking clients to pay their bills. Managing receivables will not hurt the relationship as long as it is handled professionally. Firms can employ trained professionals on staff to perform accounts receivable management functions. Notice the words "trained professionals." Those who fill this role must have the experience and proper training and must be accepted by the lawyers as professionals performing a vital function for the firm. Alternatively, a growing number of firms are retaining an outside receivables consulting firm with which the firm works closely.

Mistake #7: Clients will call if they have a problem with your bills.

Curiously enough, this often proves untrue. Some clients will, in fact, be quick to call if they perceive a problem. Most, however, will not, for one of many reasons: they are uncomfortable talking about money, they are totally confused by the bill and don't know where to begin, they are unprepared for the total amount of the bill and find themselves unable to pay.

Mistake #8: It is most effective to communicate with those who have not paid their bills through the mail.

In addition to being slow, the mail is far less effective than the telephone because a conversation allows you to have a dialogue about the bill. Besides, letters and reminder statements are more easily misplaced and avoided. If the client continues to receive reminder statements after 60 days and still does not pay, chances are that

there is an issue preventing payment. Even a brief, non-confrontational telephone conversation should communicate to the client the urgency of your need for payment and allow you to learn quickly if there are any problems or concerns – and what it will take to get the bill paid.

Mistake #9: This sophisticated new accounting and collection software is the answer to all our collection problems.

The new software can be a terrific tool to manage receivables, but it is only as good as the people using it, people who understand how to use all the functions. Many law firms have developed policies and procedures to better manage their accounts receivables, but have not properly utilized their software to help implement new systems. It takes time and specialization to fully grasp how the software can help a firm's collection efforts. Law firm staff are often responsible for many day-to-day tasks that leave them little time to explore and make maximum use of the functions the software offers.

Mistake #10: We have the right reports to help us analyze our receivables.

Wrong. Most firms just look at aged accounts receivable reports for all clients and all attorneys. That is too much information to target problem offenders. Firms need to be generating information that will help them get their arms around the status of the receivables. They need to know if an account is being actively pursued and what the payment status is. They need to categorize their accounts in order to know why clients are not paying, such as cashflow problems, disputed fees and services, third-party responsibility

for payment, etc. They need to know where the problem accounts are in order to determine a plan of action to get the bills paid.

Mistake #11: An accounts receivable management program will not work in our firm.

This is largely because law firms are unsure of how to get an accounts receivable management program started. Lawyers must be educated on the various techniques and strategies for collecting receivables. More importantly, they must understand that clients are willing to respond to tactful inquiries about unpaid bills and are not offended. Attorneys must see it from the client's perspective, that they are used to vendors contacting them about bills. A good way to get started is to work receivables that have aged well past 120 days or receivables that are not being managed by anyone, such as those belonging to lawyers who have left the firm.

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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