Mid-Year Billing: Is Your Accounts Receivable Management Plate Half Empty or Half Full?

We are now six months through the year – halfway between the relief of getting through 2013’s end-of-year collections frenzy and the start of 2014’s.

It does not have to be that way.

Evaluating your firm’s accounts receivable management and collection efforts six months into 2014 will give you an opportunity to see what is and what is not working, so you can start making corrections. Developing strong, effective techniques to deal with ageing accounts can be a major factor in helping your law firm meet its financial goals this year. Do not make the mistake of assuming receivables will be paid without having the right components in place that are getting the job done.

Law firms today need to overcome certain financial demands, such as rising operating expenses and compensation. They continue to explore ways to increase their revenue, such as improving their overall accounts receivable management and collection efforts. Many firms are not turning their receivables to cash quickly enough, and as those receivables start to age, the firms struggle to find workable solutions to this problem.

_Firms must not only have the forethought to improve their financial position this year (and for years to come), but also an understanding of the right accounts receivable management procedures and processes that can help get them there._

Your firm has a great deal at stake when it sees receivables sitting there. There are a number of steps you can take now that will take much of the pressure off when year-end rolls around:

1. **Address the Real Issues** – Firms have created accounts receivable leadership programs, but many do a poor job of setting attainable goals and measuring and evaluating the success of their efforts. Take a step back to evaluate your objectives – and the policies, procedures and personnel you are using to achieve these objectives. Accounts receivable age rapidly unless you put in processes that get the job done in collecting your receivables timely.
2. **Give Your Attorneys Less Autonomy** – Attorneys are often reluctant to follow up on receivables – or even to have others help them do so – because they fear that by pushing to collect outstanding receivables they will jeopardize their chances for more and better work. Many firms are losing revenue by giving attorneys too much individual autonomy in making sure bills get paid. When will firms stop tolerating supposed good clients who 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?

Attorneys are given too much leeway in dealing with their clients during the first 11 months of the year, and only receive pressure to collect during the year-end stretch. With many firms having millions of dollars well over 90 days past due, firms need to replace the traditional culture of forgiveness with one of high expectations to increase revenue through better collection efforts throughout the year.

Professional, consistent follow-up is vital to ensure that clients understand that the firm is monitoring their unpaid invoices. If an attorney cannot take the time to monitor payment status, the firm must have collections professionals to help monitor it for them. The attorneys are vital to assess the clients’ ability and inclination to pay. They do not necessarily have to be the ones getting them to do so.

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3. **Put the Right People in Charge** – Determine if you have the appropriate governance structure in place. Effective receivables management needs to start from the top. Place the right people in leadership positions, people who will roll up their sleeves and work as part of a team to achieve success. They need to have the ability to tell attorneys to address their collections, and to use the firm’s resources to help them achieve results. Demanding real accountability is tough, but it sure is easier than pursuing payment of ageing receivables.

4. **Have the Right Team in Place** – Evaluate whether the firm has the right administrative staff, and determine whether they are doing the right work in the right way. Are these staff members reporting weekly on the accounts for which they are responsible, the age of the accounts, how much they have collected and what they have in line for payment? Do you know how much they are working on actual collections, as compared to other duties less important to their primary purpose (i.e., generating reports, sending out reminder statements, providing information that the lawyers request, etc.)? Are they knowledgeable enough to provide the kind of reports and management information to the firm that will explain the progress of the collection efforts?

Staff must be held to a high level of accountability, but for different reasons than the attorneys. If the firm chooses to have staff contacting clients directly, the staff must not have too many other responsibilities that keep them from dedicating themselves to this mission. Beware of staff that prefers doing clerical work to making telephone calls to clients.

Your collection team members must have a strong understanding of different kinds of transaction and different practice ways, and what each requires. They must know – and have access to – the right resources for getting bills paid. They must have a strong understanding of payment for both institutional and non-institutional clients. They must be expected to handle collections on a day-to-day basis, but, equally important, they must be evaluated to ensure that they are providing concrete results. Recognize collection managers as the rainmakers they can be. Although they are making rain in a different way than the attorneys, they can add equally great value to the bottom line.
5. **Gather the Right Information** – Make sure you are gathering the information that you need for your receivables. At a minimum, you need to know if someone is actively pursuing, 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 to act quickly. At a minimum, categorize receivables to determine:

- Is it collectible? If so, when can we expect payment?
- Is it problematic? How good are the chances we will get paid?
- Is it simply not collectible?

Reviewing various financial reports is essential to managing receivables. However, it is not just reading the numbers, but also using the reports to understand the clients' stories and the relationships behind the numbers.

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6. **Establish Realistic Time Frames** – Receivables over 120 days have a 50 percent chance of being collected, and the rate continues to drop as receivables age. If firms have any hope of getting paid, they must pursue these accounts diligently; don't wait for a client meeting, a phone call or a letter. Some of these accounts may be difficult to collect if only because no one has made the effort in the past to contact the clients. Work with the attorneys and your staff to figure out which clients you need to pursue and how to pursue them.

7. **Be Proactive** – Make sure that the attorneys in charge of your collection efforts and those staff involved are coming together on a monthly basis and assessing their progress. Managing accounts receivable is a roll-up-your-sleeves effort. Even if you are unlikely to change the habits of clients accustomed to paying at year-end, teach new clients that they are expected to pay on time.

8. **Don’t Think You Can Collect Your Firm Out of a Receivables Problem** – There are no quick fixes in receivables management. Taking steps to collect aged receivables may help cash flow in the short term. But without fundamental changes to prevent collection problems, the lawyers will quickly return to bad habits and the firm will find itself in the same bind down the road. Firms frequently look at their older receivables and admit to having a collection problem. However, the real problem is that the problem has long existed, but they did not take the time to recognize it earlier in the ageing process or before the work even started.

9. **Encourage Client Communication** – Law firms lose clients by doing poor work or failing to deliver client service, not by asking clients to pay their bills or learning why there are delays. Managing receivables and talking to clients will not hurt the relationship, as long as it is handled with a customer service attitude. Actually, many clients prefer talking to others besides the responsible attorneys about outstanding payments. Clients are relieved when they can discuss their questions, whether it is that they do not understand the services that the firm provided or are surprised that the costs exceeded their budget. Ageing, unpaid receivables are often due to the many stories beneath the numbers that need resolution and answers before clients will pay.

10. **Keep an Eye on the Calendar** – Time is of the essence. Don't wait to make the year-end push. Start now. Many firms are evaluating how they plan to meet their year-end budget,
recognizing that the new economy has fundamentally changed the rules of the game. Likewise, they are taking a hard look at their accounts-receivable management as an avenue to help achieve their goals.

ABOUT THE AUTHOR:
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