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MANAGEMENT

Focus on Accounts Receivable

Ten steps to take now for a more profitable year's end

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Don't wait until the fourth quarter to begin focusing on accounts receivable issues. Start now to take the necessary actions to move your firm toward a more profitable year.

Now with the year-end rush behind you, firms need to take the time to evaluate last year's collection efforts to make changes for this year.

1) Ask the right questions about your accounts receivable management program.

- Are you doing everything possible to add dollars to the bottom line, through better accounts receivable management and collection efforts?
- Do you know what kind of collection follow-up is being performed?
- Do you know what you can expect in payments on your older receivables?
- Do you have a good understanding of why your clients are not paying?

If you can answer yes to all these questions, you will have a clear indication of whether the firm has collections under control. However, don't be surprised if the results are not what you

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expected. Many firms have a higher opinion of their collection efforts than they should. It is a challenge for firms to transition their culture into a more business-like approach and understand that the real issues concern the relationship with the client.

2) Manage expectations. Don't try to change things completely or you will set up your firm for failure. Establish realistic and specific goals that will permit you to show results, such as improving reporting information on the status of collection efforts or reducing the number of very old accounts.

Specific, meaningful results will earn your program credibility and respect and give you the opportunity to move on to other accounts receivable management issues.

3) Honestly and objectively evaluate your current efforts. For firms that already have accounts receivable management programs in place, it is time to step back and determine how well you are doing — and identify ways you can do better. These areas include:

- Effectiveness of the firm's current accounts receivable management strategy. It is critical that the leadership of the firm understand they must first have a proper, working business infrastructure that deals specifically with accounts receivable management before they can measure the effectiveness of the firm's collection efforts.

- Reduction of accounts and balances of older receivables. Firms should

not be content only to collect more current receivables. They must address the collection of older receivables, particularly those well over 90 days past due.

- Analysis of how well the attorneys are managing and collecting their own accounts. Without a doubt, this is a critical area when reviewing the success or failures of a firm's collection efforts and why receivables age too far without being paid.

Assessing how well the firm, or its collection committee, is doing is a particular challenge because it requires independent thinking and breaking from the norm.

4) Review the right accounts receivable information. Most accounts receivable reports are cumbersome and uninformative; much information is reported that is not helpful in analyzing receivables. Unless a firm is categorizing and classifying its receivables to determine what it can truly expect to be paid, when and how much, it is difficult to determine which are good paying receivables and which are not.

5) Make the most of your committee. Committees, as a whole, can be unproductive. But if ever there was a committee that could offer the firm real value, in terms of increased revenues, it is a committee that deals with receivables and collections.

The committee must meet monthly, know what to do when it meets, and be prepared to take as long as necessary to perform its duties at the meeting.

The agenda of its meetings should focus on going over accounts and discussing collection efforts.

The right people must be on the committee, people who will devote the

necessary time and perform the requisite follow-through when working with the professionals who bill.

The committee must take a roll-up-your-sleeves attitude and spend time going over collection efforts for certain accounts at certain balance levels.

It must have reports that detail the status of collection efforts, and be able to monitor progress.

It must spend the bulk of its time with categories of receivables that require the most attention (i.e., those collection efforts being handled by the attorneys themselves).

If the firm is too small to have a committee, ensure that the leadership of the firm is making the time to oversee collection progress and ensure that you have the right leadership (attorneys) in place. Small and medium-size firms have to be just as organized as large firms.

6) Evaluate whether the firm has the right administrative staff in place, and determine whether they are doing the right work in the right way. Are these staff members reporting weekly on the accounts they are working on, the age of the accounts, how much they have collected, and what they have in line for payment? Do you know how much time they are working on actual collections, as compared to other duties that they believe is collection work (i.e., generating reports, sending out reminder statements, providing information that the attorneys request)? Are they knowledgeable enough to provide

the right reports and management information to the firm that will explain the progress of the program and collection efforts?

7) Determine whether the firm has the right collection software and whether it is being used correctly. Does the staff know how to use the software on a day-to-day basis to perform collection work? More importantly, is the firm using it to generate sophisticated reports that are useful to firm management? Does your software give the firm the opportunity to review information in a way that will help it draw conclusions about problem areas? If your firm does not have collection software in place, you should be aware that there is cost-efficient collection software on the market designed specifically for professional firms.

8) Educate your attorneys about why their clients may not be paying their bills. Attorneys are still uncomfortable about contacting clients about unpaid bills. However, they frequently do not understand why their clients do not pay their bills. Simple cash flow problems remain the number one reason for unpaid bills.

9) Recognize the need for specific collection policies and procedures. They are effective, but there are issues involved that can make collections difficult in professional firms. Although we are quick to say that black and white policies and procedures must be drafted, adopted and enforced, it is the nature of the practice and the compli-

cated nature of client relationships that often requires these policies to be used as guidelines instead of hard and fast rules. Because of these obstacles, it is imperative that law firms have the proper business infrastructure in place to ensure the right collection efforts are being pursued. It is essential that the individuals responsible for collecting the accounts — whether the professionals themselves or the administrative staff — are focused on having direct contact with the clients to resolve issues that prevent payment.

10) Look at trends and patterns that will help identify clients with payment problems. Take time to review the billing and payment history of clients, including the date and amounts of last payments, how much billable work is still being performed, and the age of unbilled time. There is a strong possibility that many unpaid bills are not a result of complicated payment arrangements. Instead, it may be because the clients are dictating to the firm the terms of their payment simply because the professionals have not properly taken control of the collection efforts.

Also, be careful not to gauge your firm's aged accounts receivable numbers solely by comparing them to statistics from firms of similar size and practice mix. Although benchmarking is a useful tool in many financial management areas for law firms, it is critical in accounts receivable management to look behind the numbers and determine the reason for payment trends. ■