

Client Connection Answers 7 of Your Most Pressing Questions about Accounts Receivable Management at Year-End

Don't look now, but year-end is rapidly creeping up on you and your law firm. All those questions about accounts receivable now take on greater urgency as December 31 stares you in the face. We have compiled the most pressing questions we typically hear at this time of year — and offer you practical answers:

1) Going into year-end, what role should firm leadership play in A/R management and collection efforts?

Effective receivables management starts from the top. Firm leaders need to be able to tell the attorneys to address their collections, but also understand the need for other resources to help them achieve results during the last quarter. Take stock of what you are (and are NOT) doing — and why — and evaluate what works; also think back to what may have worked in the past. Look at everything, including how your firm historically has managed its receivables, to determine where changes need to be made based on today's legal environment and clients' payment patterns. Assess whether you have the right people, with the right skills, in place to do the job right. Both the attorneys and the A/R staff have a role to play. To make real progress, understand that everyone managing receivables must be held to high standards of accountability, especially at year-end.

2) How can we overcome the backlog of older, difficult A/R to be collected by December?

Typically, firms focus their efforts on those clients that pay timely and avoid working with

older accounts because they take time and are not pleasant to deal with. Because the older receivables require more time and effort, you had better start now. There must be dedicated, consistent efforts, with status reports going to the leaders of the firm to ensure progress is being made. Do not allow your lawyers to delude themselves into thinking that they are going to be paid unless the firm pursues the receivables. Law firms are making a big mistake if they think these types of receivables will be paid without working closely with clients and letting clients know your year-end payment expectations.

3) We have a variety of information regarding our accounts receivable. What should we be paying particular attention to at year-end?

A/R reports have to give firm leadership real, actionable information; they need to show that collection activity is moving forward and progress is being made on each account. Detailed reports should provide information on whether accounts are actively being pursued, what the payment status is, who is pursuing collections and what success they are having, why clients are not paying, and what steps are being taken to get them to pay.

4) How can we make the most of our dedicated administrative staff at year-end?

The staff should not be focused on keeping the attorneys happy by getting them copies of bills and reports; anybody can do that administrative work. Instead, determine what age of receivables they are working: Is their success with good-paying clients that just need reminding, or are they making collecting older, difficult accounts the focus of their efforts? Also, determine how many direct contacts they make daily with clients and how many accounts they are handling.

Most importantly, determine how many actual dollars they are collecting, especially the older accounts that continue to age. If your staff is handling e-bills, identify how many of these accounts they are handling and how long it is taking to resolve these issues.

5) Even at year-end, some attorneys are still reluctant to make A/R management a priority because our attorneys don't want to hurt their client relationships. How can we take action while respecting their concerns?

Remind your attorneys that many other business partners are contacting their clients for this reason, so it is entirely reasonable for you to do the same. Educate them on various techniques and strategies for contacting clients that will keep their relationships strong. 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. Do not be reluctant to hire professional staff with experience in accounts receivable management in the legal profession.

6) What problems do law firms experience at year-end concerning the slowdown in payments?

Cash flow problems and clients (both institutional and non-institutional) hoarding cash are the main reasons why clients do not pay or pay slowly. They understand that they can ease their cash flow problems by delaying payment or by not paying at all. They may claim that they are not satisfied with the services provided or are unhappy with the

results. Further exacerbating the problem, clients may experience "sticker shock" when they expect to receive a bill of a certain size and are surprised when a much larger one arrives. E-billing is a factor delaying payment. The growth of e-billing and the greater length of time needed to resolve e-bill issues with clients has caused firms to re-evaluate their collection issues by separating e-bill and non-e-bill collections.

7) How do we avoid this year-end madness and make our collection efforts a priority throughout the year instead of waiting until the last couple of months?

Too many law firms continue to think collections is an easy process — all you have to do is remind clients to pay and they will pay. But more and more, clients are more savvy and smarter about their payments, and many take considerable time before they pay. Throughout the year, stop tolerating "good clients" who just don't pay their bills. Although waiting until year-end may work for some institutional clients that typically pay at year-end, many clients require much more effort throughout the year. Be realistic about whether the firm is underachieving in its collections goals and if it has developed bad collection habits that have lingered all the way to year-end. Help your lawyers understand that when they see problems with older and difficult A/R later in the year, many of these problems actually started early in the year — but there was nothing done about them.

Client Connection assists law firms of all sizes throughout the United States by furnishing accounts receivable management services and developing practical receivable programs.
