



Talk is Cheap: What Is Your Firm Actually Doing to Improve Its Accounts Receivable Management?

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Actions speak louder than words. Law firm management can talk all it wants about policies, procedures and infrastructure. But results are what matters. When all the talk is done, what has your firm done to address difficulties it has with accounts receivable?

In our past newsletters, we have stressed the importance of having systems and techniques in place to help ensure law firms are set up to manage their accounts receivable. This is necessary to achieve one thing and one thing only – results.

The economic picture for law firms heading toward year-end remains tight, so now is a good time to figure out what actions really work. We suggest focusing on five key actions:

1. Reach a consensus about just how much a priority collections should take. Place the right people in the right positions, people who will roll up their sleeves and work as part of a team to achieve success. Give them the power 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's easier than pursuing payment of ageing receivables.

2. Take a good hard look at A/R over 90 days old. Don't make the mistake of waiting until 90 days to be concerned about your receivables. When looking at ageing receivables, many firms will see collections problems. The reality is that they had such problems sooner, but did not do anything about them. If the work has

been satisfactorily performed, the client should pay within 30 days. If you are not seeing payment by that point, you are facing the first sign of a collection problem. Clients conclude that if the firm waits several months to collect unpaid bills, they need not rush to pay.

Make sure that accounts that start to go over 60 days are routinely contacted to let clients know that payment is expected. You would be surprised to learn how many of a firm's clients are being contacted by their other business partners to ensure that their bills are in line for payment. Why should you be any different?

3. Work backwards forward.

Work on the oldest A/R first and move forward. Resolve the old issues – which are the hardest to address – before tackling the easier, newer receivables. Many times, law firms will acknowledge problems that are slowing down or preventing payment on certain accounts without taking the time and action to re-visit these accounts to ensure collection efforts are succeeding. These accounts do take time and energy, but working on them can result in found money for the firm. The strongest members of your collection team should be focused on the older, tougher accounts. In addition, don't let the number of 90-day accounts grow by neglecting to work the lower-level delinquent balances. You would be surprised how significant a portion of the firm's accounts receivable portfolio is comprised of accounts with smaller balances.

continued on back

4. Understand the reasons your clients are not paying. Why aren't they paying? It all comes down to problems with cash flow. However, such problems are often masked, intentionally or not, by other issues, such as poor service, bills that are higher than expected, bills that were never received, etc. From the start of the relationship, firms and their lawyers must understand their clients so that, when problems do arise, they can get to the source of the problems and resolve them. Although aged receivables are part of the financial report, it is all the stories underneath those numbers that firms need to get a handle on, so they understand why clients are not paying. To help alleviate cash flow issues, law firms should re-evaluate and implement realistic credit assessments of prospective clients. If clients are accepted after suitable credit analysis, the amount of risk can be reduced by including provisions for retainers, evergreen retainers or personal guarantees when engagement letters are prepared.

5. Measure the results of the efforts your firm is making. You may be gathering a lot of information about your collections, but determine whether you are getting the **right** information. At a minimum, you need to know if an account is actively being pursued and what is 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. Categorize receivables: (1) Are they collectible? (If so, when

can we expect payment?) (2) Are they problematic? (What are the chances we will get paid?); or (3) Are they simply uncollectible? Also, help your efforts by creating reports that will show when payments can be made, and frequently update information on where collection efforts and payment status stand. If you have collection software, use it correctly to develop these types of reports.

As year-end approaches, now is an excellent time to take control and “get your arms around” your collection issues. Analyze your current receivables, identify problem accounts and gain an understanding of why the problems are occurring (insufficient credit review, extension of credit beyond what the client could afford, poor follow-up efforts, etc.). Once you have identified procedural, organizational and personnel weaknesses, you can take corrective measures to significantly reduce future delinquency.

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.



Get in touch:
800.236.8232
972.378.0407 fax
info@clientci.com

Visit us at our website:
www.clientci.com