CLIENT CONNECTION

Accounts Receivable Management Solutions for Law Firms

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One Foot In and One Foot Out:

Why Your Law Firm Needs to Jump Into the Water With Its A/R Management Strategy

When it comes to managing accounts receivables, if your firm is like many that we know, it has one foot in and one foot out of the water. It has not wholly committed to jumping in. You may be cutting corners, without fully embracing all the accounts receivable management efforts that you need to.

Too often, firms get to December 31 and rationalize that they made it to year-end safely. Yes, firms may have met budget, but too often they left too many unpaid receivables, which will continue to age and become increasingly difficult to collect. They choose to ignore the amount that they have failed to collect by turning a blind eye during the year to how they could perform better.

The first part of the year is critical for evaluating how your firm can do better to diligently manage and collect its receivables.

While the year is still relatively young, we recommend that you take the five steps that ensure a full commitment to managing your receivables – and will start showing results quickly on your bottom line.

1. Understand and Limit the Complete Autonomy You Give Individual Attorneys

For all sorts of reasons – good and bad – firms continue to give their attorneys too much control of collecting receivables from their clients. This is often done without ensuring the attorneys are making progress and spending the necessary time to collect their A/R. Identify your problem attorneys, your problem practice groups and your problem clients – and take action. Take the time to meet with these attorneys on a regular basis and ask them to tell you specifically when bills can be expected to be paid. If they do not meet those dates or don't have a good explanation, make sure others in the firm are available to help. Attorneys are given too much leeway in dealing with their clients during the first 11 months of the year, only to have their feet held to the fire during the year-end sprint. The traditional culture of forgiveness needs to be replaced with a culture of high expectations to increase revenue through better collection efforts throughout the year. If attorneys cannot make 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.

2. Connect the Dots, Manage Each Step and Believe in The Process

Stop throwing spaghetti against the wall to see what sticks. Take appropriate steps to build an accounts receivable management program, from the time WIP is billed through when invoices are paid in full. Manage it throughout the course of the year, and don't wait until the last quarter – or, even worse, the last month – of the year to pay attention. Too often, firms want the results of a strong accounts receivable management program, without putting in the time and effort needed to make it happen. There is no doubt that firms want to collect their receivables timely and want to prevent their receivables from aging out. But they need to recognize that the collection process is long and, sometimes, tedious – and requires daily attention. There needs to be a clear plan of attack, clear assignment of responsibilities and clear expectations and ramifications if those involved in the process do not take ownership of their responsibilities.

3. Recognize That the Effort is Year-Round

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. Throughout the year, firms must stop tolerating "good clients" who just don't pay their bills. Although waiting until year-end may work for some institutional clients, many institutional and non-institutional clients require much more effort year-round. Be realistic about whether the firm is underachieving in its collections goals and efforts and if the firm has developed bad collection habits. Taking a hard look at how the firm and lawyers are underachieving with A/R management can often put the firm on the right path to improving cash flow with the right collection efforts.

4. Take Control Away from Your Clients

Do not give your clients the opportunity to dictate the terms of payment. From the start of the relationship, make clear your clients know what to expect from you – and what you expect in return. Let them know that you are open to hearing any questions or concerns they may have, but that if they expect prompt service from you, you expect prompt payment from them.

5. Don't Count on the Past to Predict the Future

While past performance should not be ignored, it may be less useful for purposes of ensuring firms will have a successful year unless the right changes are made with A/R management. If a firm has not addressed its collection issues and is unhappy with the results it is getting, it is time to try something different. Remember the definition of insanity: making the same mistake over and over, hoping for a better result.

If your firm has created an accounts receivable management program, take the time to set attainable goals, and evaluate your success in achieving them. Do not allow your collections infrastructure to balloon into an inefficient bureaucracy with lots of committees and attorneys who are focused on issues that do not lead to collections.

Law firms can no longer accept that ageing receivables are simply a part of doing business. Those firms that address and actively work at getting results from their collection efforts will see a real payoff in the end. For those that do not – it will be a long year.

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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Get in touch:
800.236.8232
info@clientci.com

Visit us at our website:
www.clientci.com