



# Halfway Through the Year: Is Your Accounts Receivable Management Plate Half Empty or Half Full?

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**W**e are now halfway through the year – halfway between the relief of getting through 2011's end-of-year collections frenzy and the start of this year's. It does not have to be that way. Evaluating your firm's accounts receivable management and collection efforts six months into 2012 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 in 2012. Do not make the mistake of assuming receivables will be paid without having the right components in place and ensuring those components 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 those receivables start to age, so 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.

Law firms have a great deal at stake when they see receivables sitting there. There are a number of steps you can take NOW that will relieve much of the pressure at year-end:

**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. Be realistic about whether or not the job is getting done and look to make changes as needed. Accounts receivable age rapidly unless you keep your eye on the ball and put in processes that get the job done in collecting your receivables timely.

## **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's easier than pursuing payment of ageing receivables.

## **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. We wonder when firms will stop tolerating “good clients” who just don't pay their bills. When are they going to stop permitting clients to pay slowly without asking why? When will they, rather than the client, start dictating the terms of payment?

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 stretch. With many firms having millions of dollars well over 90 days past due, 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.

Professional, consistent follow-up is vital to ensure that clients understand that their unpaid invoices are being monitored. 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.

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**Have the Right Team in Place** Evaluate whether the firm has the right administrative staff, and determine whether they are doing the right work 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 right 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 transactions and different practices, 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 insure 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, the value they can add to the bottom line can be equally great.

**Gather the Right Information** Don't just gather information on your receivables; make sure it's the information you need. At a minimum, you need to know if an account is actively being pursued, what the payment status is, 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 in order to act quickly. 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.

**Establish Realistic Time Frames** Be aware that receivables over 120 days have a 50% chance of being collected, and the rate continues to drop as receivables age. If you have any hope of getting paid, these accounts must be pursued 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 if the clients need to be pursued, and, if so, how.

**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.

**Use the Service of Professionals** 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. Firms can employ trained professionals in-house who work specifically for the legal profession to perform accounts receivable management functions. Those who specialize in this area have the necessary experience and training, and can be accepted by the lawyers as professionals performing a vital function for the firm. Alternatively, a growing number of law firms are retaining an outside receivables consulting firm, concentrating in the legal profession, with which the firm works closely.

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**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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