



Don't Underestimate the Need for a Strong **Accounts Receivable** **Management Program** in 2013

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Is your firm facing the never-ending challenge of a backlog of ageing accounts receivable? Can that backlog be reduced and managed to prevent this problem from continuously recurring? The answer is yes. But it is equally important for your firm to understand why this continues to happen and what it must do to efficiently manage and collect receivables over the course of the year to help enhance revenue growth.

Just as firms are finding that they need to change how they deliver their services, communicate their strengths to their clients and position themselves in the legal market, they also need to change the way they manage receivables in today's evolving legal environment. Managing receivables needs to be about taking a proactive approach to collections, but many firms have not embraced the strategies necessary to ensure they get paid timely – or at all – for their services. Firms must see managing receivables as a true part of their revenue enhancement growth and ensure that their collection efforts are actually working.

Start actually managing your receivables rather than simply expecting payments to be made.

Law firms are accustomed to looking at receivables information only on a superficial level, instead of spending time looking beneath and beyond the numbers to determine when and if payment can be made. Now is a good time to take a new approach.

Perform a self-evaluation to figure out what you are doing right – and what you could be doing better. Do a thorough self-assessment of your A/R management practices and procedures. Take stock of what you are doing – and why – and evaluate what is and is not working.

Many firms that have prided themselves on having the right infrastructure in place discover that what they have is flawed; some discover they really don't have much of an infrastructure at all. Look at everything, including how your firm historically has

managed its receivables, to determine where changes need to be made.

An important aspect of this is assessing whether you have the right people, with the right skills, in place to do the job. This is two groups – the attorneys and the A/R staff. Even firms that have procedures in place will not understand the progress they are making unless there is an evaluation system so they can review the progress of these two groups. Also, determine if actual payments are being made from their efforts, including payments from the old, difficult accounts that you have allowed to age too long. Understand that everyone managing receivables must be held to high standards of accountability to ensure progress is being made.

Understand why clients are not paying their bills in a timely way.

Clients have changed their views and expectations of legal services. They are also changing the way they evaluate their legal bills, and many are no longer simply approving bills and sending payments. There has been a growing tendency toward ageing receivables in the legal profession because of the various transactions and relationships that do not lend themselves to strict payment terms. However, firms must now also address all the reasons why clients are not paying that underlie the A/R numbers, and continually work with clients to get their bills paid.

Why aren't clients 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, even bills that were never received. 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.

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Make sure you are looking at the right information.

Most firms understand the payment pattern of clients and expect certain delays, which they can accept. But too often they let these exceptions magnify to begin a growth trend of ageing A/R. Law firms tend to lose sight of the numerous reasons clients have for not paying timely. This is often coupled with a reliance on sophisticated A/R management software, but a failure to build the right reports, ones that measure progress and evaluate the efforts being performed by the lawyers and staff. Remember – software is a good tool to have, but it won't collect your receivables and should not be viewed as the solution to your collection problems.

Most firms have gotten used to looking at an abundance of financial information and ageing reports to evaluate their progress in managing receivables. Although some of this information is good, many reports do not show when payment can be expected. At 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. Categorize receivables to determine who is handling the collection efforts, when can you expect payment, whether it is problematic, how good the chances are that you will get paid and whether particular receivables are simply not collectible.

Don't let receivables age too long.

Although many clients are taking longer to pay their legal bills, ageing receivables are a moving target, one that must be monitored and managed closely to prevent ageing from going too far. So often firms see receivables build up over 90 days and decide that they have a collection

problem. More often than not, the truth is they had a problem much sooner but never addressed it. The problem of receivables not being managed adequately is magnified because this applies to many accounts, not just a handful. Ensure that clients are contacted early in the ageing process, and that follow-up is consistent and professional. This keeps open the channels of communication and will help your firm determine early if there is going to be a problem getting a bill paid.

Don't underestimate the payment power of small balances. All balances are fair game to be pursued. In the past, many firms have had a tendency to focus collection efforts on larger balanced accounts. However, the beauty of pursuing small balances is that there are many to pursue and often clients will have the cash flow to pay off those lower amounts without feeling they are straining their budget. Depending on the size of your firm and the nature of its practice, small balances can range accordingly.

Institute a workable program to manage accounts receivable **now** – long before year-end approaches and the pressure starts growing to show that progress is being made. Accounts receivable management should be a large part of your firm's revenue enhancement plans, and the firm's leaders must be proactive in evaluating current efforts and making necessary changes. Stop managing your accounts receivable as you have in the past and move forward to implementing solutions that are required in today's legal profession.

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.
