New Jersey Law Journal

VOL. CXCIX - NO.12 - INDEX 831 MARCH 22, 2010 ESTABLISHED 1878

MANAGEMENT

Learning Lessons About Managing Your Receivables in a Down Economy

By Jake Krocheski

For most law firms, 2009 was a tough year — on so many levels. But what's done is done. Now is a good time to determine what law firms learned last year so adjustments can be made, lawyers can be educated and changes can be implemented.

The bigger question we can ask ourselves is, have we learned from our mistakes in managing our accounts receivable, and are we ready to make the changes that must be made?

Many of the problems firms experienced revolved around cash flow. Clients were slower than usual to pay their bills. A greater number of them struggled to pay at all. As many firms continue to strategically plan how to ensure strong revenue, they must learn to clearly see that a productive, workable accounts receivable program can make all the difference in their efforts.

While most of us were glad to see 2009 recede into the sunset, there are many signs that 2010 will be, in many ways, tougher yet. Therefore, now would be as good a time as any to take the steps necessary to address fundamental issues concerning your accounts receivable. Here we offer recommendations for action steps you can start taking immediately.

Start actually managing your receivables rather than simply expecting payments to be made. Strategic planning is most effective when times are good, instead of waiting until times are hard. In such times, law firms start turning over every stone to find sources of revenue. What better stone to look under than unpaid receivables. Law firms are accustomed to looking at receivables financial data only on a superficial level, instead of spending time looking beneath and beyond the numbers to determine if payment can be made. Step up to the plate. You will be surprised by what you discover.

Perform a self-evaluation to figure out what you are doing right and what you could be doing better. Perform a thorough self-assessment of your receivable policies and procedures. Take stock of what you are doing and why, and evaluate what is working. Many firms that have assumed they have 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, from intake procedures to collective software capability, to whether attorneys are actually doing a good job collecting their bills. An important aspect of this is assessing whether you have the right administrative staff, with the right skills, in place to do the job. In addition, determine whether they have been given the right responsibilities and understand that everyone managing receivables must be held to some standards of accountability to ensure progress is being made.

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

Keep the lines of communication open. It is vital that your attorneys communicate with clients throughout the course of the relationship. From the start, find out if clients have reasons they will have trouble paying their bills. And that communication must be a two-way street, where the attorneys are listening to what clients are saying as much as they are talking. As soon as they sense that there is a problem, they should reach out to the client to understand the cause of the problem and what steps will be needed to remedy it.

Figure out which collection meth-

Krocheski is president of Client Connection, a provider of accounts receivable management services to the legal profession.

ods work most effectively for your firm and clients. If yours is like many firms, you have sent out the occasional reminder statements or letters politely requesting payment. And, if you are like many firms, you have seen similar results in response to these efforts: little to nothing. Such letters are frequently lost or conveniently misplaced. More direct, immediate and frequent communication will have a far greater impact. Reach out by phone or e-mail. Make the communication more personal.

Send out accurate bills on a timely basis. Sounds pretty basic, no? However, the reality is that invoices that are incorrect in one way or another, or that go to the wrong person, slow down the process. If you expect your clients to respond timely, make sure you are sending them out in a timely manner. And see that they are getting in the right hands. Too many times, people move on or change position, and bills get lost in the shuffle.

Ensure you are looking at the right information. Most firms have gotten used to looking at an abundance of financial information and aging 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. At a minimum, categorize receivables to determine whether they are collectible. If so, determine when you can expect payment; is it problematic; how good are the chances you will get paid. If particular receivables are simply not collectible, recognize that and move on.

Don't let receivables age too long. Aging receivables are a moving target, one that must be monitored and managed closely to prevent aging from going too far. Firms see a build-up of receivables over 120 days and decide that they have a collection problem, when the truth is they had a problem much sooner but never addressed it. Ensure that clients are contacted early in the aging process, and that they are receiving consistent, professional follow-up. This keeps open channels of communication and will help your firm determine early if there is likely to be a problem getting a bill paid.

Don't underestimate the payment power of small balances. All balance levels are fair game to be pursued. In the past, many firms have had a tendency to focus collection efforts on larger balance accounts. However, the beauty of pursing 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 cash.

Institute a program to manage accounts receivable now. Long before year-end starts ratcheting up the pressure, put procedures in place. Firm leadership is important here, and individual autonomy should be left to sole practitioners. Make it a point to stop managing your accounts receivable as you have in the past. Start with the premise that all clients are feeling the impact of the economy.

Do not put it off any longer. Take the actions necessary to start turning around the situation. It promises to be a challenging year, but there are concrete steps you can take now to improve your fortunes. ■