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Accounts Receivable: Problem or Opportunity?

By Jake Krocheski

You can look at your law firm's accounts receivable program in one of two ways. You can see it as a problem—dealing with difficult receivables, sometimes older, aging receivables. Or you can regard it as an opportunity for the firm—a chance to enhance your firm's revenues. You have to make a decision: do you want your clients to regard payment as a requirement or an option?

While there certainly should be elements of the former in your program, you should take the more positive, forward-thinking approach, turning your accounts receivable management program into a proactive way to generate revenues for your firm.

Why Does Your Accounts Receivable Management Program Need to Start at 30 Days?

The simple answer is: to have a solid, consistent cash flow stream, which most businesses require in today's financial environment, and to ensure the firm gets paid for the work that your attorneys do. That's the simple answer.

Put a little more harshly, the reason why law firms need a strong accounts receivable management program early in the aging process is to prevent a domino effect of self-inflicted pain, which firms so often put themselves through by letting receivables age without having effective, results-oriented procedures in place to collect receivables promptly. Here's why:

• When law firms send out their regular monthly bills, and do not follow up promptly when clients don't pay after 30 days, the message they are sending to their clients is: "Pay when you can. Our bill is not a priority. We don't need the money right away."

• Next, with poor one-on-one follow-up with clients early on, firms lose the opportunity to determine, as soon as possible, whether or not a client can or will pay. This gives the client confidence that they are the ones who have control when and if they will pay.

• Lastly, firms give their attorneys too much autonomy in collecting their bills—which leads to the question of whether they have a collections and accounts receivable management problem or a problem of lawyers not taking responsibility for collecting their accounts.

Yes, there are certain clients and types of transactions that do not or cannot follow prompt payment guidelines. However, these are the exception and not the rule. Law firms need to understand that these exceptions gain traction and before long become problem-paying accounts as they age. On top of that, firms gain a false sense of security that they have a pot of revenue that just needs to be paid, when what they really have is a wealth of empty promises that continue not to be paid (if they *ever* will be).

• It provides the firm with a clear way of understanding—and putting into play—the most effective techniques for getting accounts collected early in the aging process, rather than having to devote the far greater efforts necessary for collecting receivables over 90 days.

• It will help manage your clients' expectations, so that they know that they will be contacted early in the aging process. By showing clients that the firm is in regular contact and is monitoring their payment status, they will understand that payment is expected.

• It helps you ensure that timely collections are a priority throughout the year, rather than putting them off until the final days of December. Too many firms are still locked into the misguided notion that "if we bill, they will pay." Although waiting until year-end may work for some institutional clients, consistent efforts all year will prevent a lot of blood, sweat and tears at year-end.

What Steps Need to be Taken?

Before deciding what direction your firm should take in building an A/R program to address receivables early in the aging process, take a step back and evaluate what would work in your firm, considering your firm's size, culture, practice areas and management objectives. This is not a one-size-fits-all program, and it needs to start small and grow, based on measurable collection results.

• Analyze what is going on in your firm. Have we relied too much on clients paying at their own discretion? Does the make-up and culture of our firm permit attorneys to go it alone in how they manage their receivables? Have we built an A/R management infrastructure without measuring how well it is performing?

• Have an honest conversation with the leadership of the firm, explaining why the firm needs to do a better job in managing its A/R. You can't do this without the buy-in of firm leadership. Recognize that you cannot entirely revamp your collection practices overnight. Review step-by-step with leadership how the firm manages its receivable now, from the time the first bill goes out to the point at which you have problem older receivables.

• Start small, think big, and build consensus. On one hand, you truly want to embrace institutional thinking and manage your receivables as a business, putting practices and processes in place. On the other, you want to give individual attorneys some autonomy, recognizing the different circumstances that may impact payment from clients. Meet with attorneys to let them know your goals. Tell them that the firm wants to take decisive action throughout the aging process, starting between 30 and 60 days. Help them understand that they need to collect the A/R themselves or get help from the firm's accounts receivable management team.

Why You Need to Take Care of Older, Difficult Receivables

Older receivables will not magically disappear. They will actually continue to grow and require much more time to get collected. In many cases, the firm has a good idea why the client is not paying, but rather than resolving the issue early on—during the first 90 days—when the problem was small, it allows the problem to grow.

Really, it's found money. Getting 50 cents (or even less) on the dollar is better than getting nothing. You have nothing to lose but revenues if you don't. Clients are a lot smarter than you sometimes give them credit for; rarely will *they* call *you*.

Dealing with problem accounts may give you a wake-up call to evaluate your accounts-receivable needs, and develop a strategy to ensure they avoid the bad habits that result in old receivables. Learn from your mistakes—and determine why your clients did not pay your bills.

Do you have internal issues that affect how you manage your accounts?

Do your clients have cash flow problems that necessitate giving them more time to pay?

Is your staff up to the task of keeping on top of the clients?

Are you giving your attorneys too much leeway in pursuing receivables?

The Need to Measure Success

If you have a receivables management program in place, set measurable goals and evaluate—on an ongoing basis—whether it is achieving those goals. If it is failing to do so, figure out why. First, ask yourself if the goals are realistic. If you determine that they are, assess why you are not reaching them.•

Krocheski is president of Client Connections (www.clientci.com), which assists law firms of all sizes by furnishing accounts receivable management services and developing practical receivable programs.