

Get a Handle on Your Bill Collection—Now

2009 is going to be tough, and if your law firm doesn't have an accounts receivable strategy, it really should.

By Jake Krochski

No one has to tell you that 2009 is going to be a tough year for every business. There will be plenty of challenges, and collecting your accounts receivables will surely be one of them.

If your firm has an accounts receivable management strategy, now is the time to re-evaluate that strategy—from top to bottom—in light of the economic climate. If you do not yet have a strategy—how can I say this tactfully?—what in the world are you waiting for?

It has been several years since we have been in a recession—and decades since an economy as troubling as we are now encountering—and most firms have not planned adequately for such hard times. And the reality for so many firms is that if they have not done a good job managing their accounts receivable in good times, how can they expect to manage them when times are tough?

Even in the best of times, it is not a good idea to wait until the fourth quarter to begin addressing accounts receivable issues. In these times, in particular, it is vital to be proactive immediately, to have a system in place at the beginning of the year and to follow through vigilantly all year long.

There will be less work in 2009, which will result in fewer receivables. But this hardly means that your firm should decrease its collection efforts. On the contrary, now more than ever is the time to step up your efforts to make sure that clients and prospective clients have the money and the ability to pay.

Remember, managing accounts receivable for a law firm is a step-by-step process that must be closely monitored in good times and even more so in not-so-good times. But if you follow the process diligently and make the necessary changes, it does work.

Take action now in the following areas:

- **Think about your clients.** Understand the challenges they are facing in this economy and figure that into managing your accounts receivables. If a tennis player keeps hitting the ball into the net, he needs to try doing it differently the next time. Similarly, if you are unhappy with the results you are getting, take a different approach. Evaluate your program in light of the economic environment. With each accounts receivable, ask yourself two questions: (1) Are we doing what it takes to move the ball forward to get this account paid? (2) If the bill can't be paid, why not?

What many firms are still learning is that having an infrastructure in place alone will not result in successful collection. It must be supported by a commitment and a change in mind-set necessary to work through all the issues preventing clients from paying. Whether it is attorneys or collection staff not doing their jobs, not working closely with clients to get bills paid, or not properly using the right collection techniques, changes must be made to see results.

- **Determine if you have the appropriate governance structure in place.** Effective receivables management starts with the right people in leadership. Give



them the authority to make attorneys address their collections, and the power to hold the attorneys accountable for their actions (or lack thereof). Demanding real accountability can be tough, but pursuing payment of ageing receivables is much tougher—and delay greatly reduces the chances of getting paid. The right people must be in place, those who will devote the necessary time and perform the requisite follow-through.

You know who the attorneys are who have difficulty collecting their receivables. Firms have long been inclined to offer these attorneys "professional courtesy"—giving them autonomy to manage their accounts receivable as they see fit. We use the term "manage" very loosely because, in far too many instances, they are not managing them at all.

In general, attorneys are given too much leeway to deal with their clients during the first 11 months of the year, only to have their feet held to the fire right before the new year. The traditional culture of forgiveness needs to be replaced with one of high expectations to increase revenue through better collection efforts throughout the year. Especially now, you cannot wait to see how things are going to go the first 11 months of 2009.

- **Focus on receivables starting at 60 days past due.** Don't fall into the trap of looking at your older receivables and thinking you have a collections problem. The reality is that you had the problem much sooner in the ageing process but waited too long to try to get paid.

The timing for collection efforts can vary. Sometimes, due to the nature of the transaction, you need alternative payment arrangements. But for the most part, start collection efforts at 60 days.

If the work has been adequately performed, the clients should make payment

within 30 days. If bills have not been paid within 30 days, law firms are seeing the first warning sign of a collection problem. Clients conclude that if the firm has waited several months to try to collect unpaid bills, they need to be in no rush to pay them. They reason that the longer their lawyers wait to collect, the greater their chance of having the bills discounted or written off altogether. If the firm does not take action to get that bill paid, it could easily go past 60, 90, or 120 days, and on and on.

- **Focus on best practices.** Frequent contact and open dialogue are vital to getting paid. Determine upfront if a client has the means and commitment to pay its bill. The No. 1 reason clients do not pay their bills is cash flow problems—and there's no doubt that cash flow will be a problem now for far more companies and individuals than usual.

Note that during these hard economic times, clients will often disguise their cash flow problems through delay tactics such as misplacing bills, requesting additional copies, requiring others in their organizations to review bills, and questioning services provided.

Frequent phone and e-mail contact early in the ageing process can make a big difference. Clients will not be offended when a friendly, professional contact is made inquiring about the status of payment. 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.

When clients enlist their support staff to help contact clients, the staff should have the desire and training to do this work. Even today, too often collection staff do not have the expertise to collect and reduce ageing receivables, though they may be well-suited to performing

other duties. They may be asked to generate reports, mail reminder statements, and perform duties at the attorneys' request instead of dealing with real receivable issues. Their priority, however, must be to determine payment status, and the reality is that clients frequently prefer speaking to someone other than their attorney about payment issues, someone who has the experience, know-how, and personality that represents the attorney well with their clients. The best collection staff, who combine tenacity and professionalism, earn the trust of the attorneys with whom they work. They must be given the directive to ask clients to pay their bills, and they need to ask clients directly.

Consider the possibility of retaining outside professional consultants to work with the attorneys in managing their accounts receivables.

- **Gather the right information.** You may be gathering a lot of information about your collections, but determine whether you are getting the right information. At a minimum, you need to know if an account is actively being pursued and what is the payment status, 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: (1) Are they collectible? (If so, when can we expect payment?) (2) Are they problematic? (How good are the chances we will get paid?); or (3) Are they simply uncollectible?

Also, help your efforts by creating reports that will show when payments can be made and frequently update information on where collection efforts and payment status stand. If you have collection software, use it correctly to develop these types of reports.

- **Start digging.** Begin by running various balance-level reports from \$5,000 to \$50,000 over 90 days to determine where your larger balances are and why they have not been paid. Check the payment history of these clients. When looking at revenue results or projections, be realistic about if the firm is underachieving in its collection goals.

- **Be proactive.** Be aware that receivables over 120 days have a 50 percent 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.

The reality this year is that even those clients who have paid timely in the past may have difficulty doing so now. The current economy requires law firms to take decisive action. Having a plan is one thing. Putting it into action, monitoring it, and making sure it works is quite another.

Jake Krochski is president of Client Connection, a consulting company focusing on accounts receivable management issues exclusively in the legal industry. He may be contacted at jakel@clientci.com.