

AUTUMN IS UPON US. DO YOU FEEL THAT CHILL IN THE AIR?

You may be excused for mistaking that shock of cold for the approach of fall. But don't get too caught up in images of changing leaves, football and jack o'lanterns. That chill going up your spine right about now may be the traditional autumnal trepidation that comes with the need to ratchet up collection efforts in preparation for that last frantic dash in December.

If your firm is like most, you probably have a lot of question marks concerning end-of-year collections. The economy – and, with it, the fortunes of many firms – continues to be uncertain. So there is no time like the present to make sure that 2003 turns out to be as financially rewarding as possible for your law firm, even though the economy continues to make it a lot tougher for most firms than it was just a few years ago (sigh...remember those warm, sunny days of the mid-90s?). One way to do that is to keep the flow of new work coming in. Equally important, however, is to make sure that the firm gets paid for the work it does.

Following are 10 steps to take to help ward off that chill and make this a profitable year:

1. Identify attorneys who have difficulty collecting their receivables throughout the year.

You know who they are. They are probably the same attorneys who have problems turning in their timesheets and getting their bills done. It's a safe bet that they will have similar problems collecting at year end. Either take that responsibility away from them – or provide them with the assistance they need to be successful.

2. Generate a list of clients that have historically paid their bills during the last 30 days of the year,

and try to get a sense whether these clients are again anticipating paying in full at year end. Don't wait until the last minute to contact clients – and find out whether they will be paying your bills in full or just some invoices. At the same time, generate a list of new clients with whom you will be experiencing year end for the first time. Since there is no history, make your best determination whether payments from these clients are on track.

3. Get your arms around your receivables by determining what clients make up the largest dollar amounts of A/R.

The best way to determine what size dollar accounts make up the majority of receivables over 60 days is to run various balance level reports, from \$10,000 to \$100,000. Then check the payment history of these clients to find out how quickly they have paid previous bills throughout the year, including year end.

4. Don't depend too much on historical patterns of bill collections.

In the past, you could safely assume that collections would increase as the year progressed. That is no longer necessarily true, especially when an unstable economy is causing many clients to adjust their payment patterns. Now, on a monthly basis, measure monthly revenue projections, and be realistic about whether the firm is under-achieving in its collection goals. There has to be a month-by-month game plan, and it is essential that the plan be realistic. Remember, cash flow problems are still the number one reason both non-institutional and institutional clients do not pay their legal bills.

5. Project realistic time-frames for collecting older, more difficult receivables.

You should be aware that receivables over 180 days past due have a 50% chance of ever being collected, and the percentage continues to drop as the receivables age. These types of accounts must be pursued much more diligently than just writing a letter. Firms can figure that only so much of these accounts will be collected at year end – determine the status and move on to brighter collection pastures. Some of these older clients have realized that no one has been trying to collect bills throughout the year. Work with the attorney to figure out if these clients need to be pursued and, if so, how.

6. Identify bills to determine their collection status.

Categorize receivables as either: (1) collectable, (2) problematic, but potentially collectable, or (3) have no realistic chance of getting collected.

7. Keep bills coming regularly and consistently.

Remember that clients, too, are enduring the tougher economic climate. They may be delaying payments as a result of their own cash flow problems. Don't exacerbate the problem by neglecting to send bills out timely. If the lawyers are too busy – or disorganized – to get their bills out on time, give them whatever assistance they need. Clients will delay payments if bills are not received when they expect them and do not logically provide the information they need to put the bills in line for payment by year end. Also, if they have a particular problem with a bill – they will wait for you to call rather than calling you to discuss it.

8. Look at the right reports – and review them regularly.

Use your collection software to its full potential, not merely as a sophisticated follow-up calendar. Your software should help you compare work in process to accounts receivable to recent payments in order to determine a true payment history and what needs to be done.

9. Make sure that the collection committee – or whomever your firm has given responsibility for this work – has clear objectives and direction.

For example, they should know that it is their responsibility to speak to delinquent clients directly to find out the status of payment rather than simply reviewing reports and gathering information for the attorneys. Both those with direct responsibility for collections and those overseeing these efforts (perhaps a collections committee) should be in agreement on which clients they are pursuing and the dollar amounts they are working to collect.

10. The person responsible for performing collections should meet one-on-one with the partners to determine the status of their A/R and exactly what they are doing about it.

These meetings should provide vital information for the management of the firm to determine the true collection status of the receivables. Remember, partners in charge of managing collections also have a busy practice and require administrative staff that have a solid rapport with the attorneys to gather this information.

Do you have a question regarding your receivables? Please send your question via e-mail (clientc@earthlink.net) and one of our professionals will respond, free of charge. At Client Connection, we know how to manage receivables, and we would be happy to share a little of our knowledge with you.

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.