

Practice Management

Take a Collection

The Problem With Keeping Quiet About Accounts Receivable

By Jake Krocheski

Do the work. Bill the client. Get paid.

Sounds simple, doesn't it?

Unfortunately, the task of properly managing accounts receivables has never been an easy job for most law firms. Although many firms have reported record-setting revenue and profitability during the past few years, attorneys are still leaving money on the table by not properly managing and collecting their receivables. With a slower economy in 2001, there is a greater need for law firm managers to remember their firm is a business rather than a collegial organization in which the lawyers volunteer their time.

Adding fuel to the fire is the fact that the cost of doing business continues to increase. Just to stay competitive, law firms are faced with the triple threat of the escalating costs of associate salaries, changing technology and increasing real estate costs. Not only do many firms carry as much as 40 percent of their receivables over 90 days, but those firm managers have no clue *how much* of that 40 percent they can reasonably expect to be paid to help overcome expenses. Some of these receivables are actually more than a year old; once and for all, they should either be collected or written-off altogether.

As a result, law firms continue to have a false sense of their true assets. To combat against higher costs, law firms have projected bigger budgets to offset higher expenses. However, firms have chosen to ignore the fact that a softening economy is compelling clients to reduce their cash reserves, out of which they pay their legal bills. Compounding the problem are clever clients, some of whom will choose to slow their payment of legal bills or not pay them at all. They know that historically, few firms have held them accountable for not paying.

The Domino Effect

Collection problems actually begin when attorneys agrees to do the work but does not follow proper channels to ensure the client will pay. Attorneys can become so wrapped up in their work that they fail to recognize the point at which they should stop doing billable work rather than continuing to amass unpaid bills. Law firms take on new clients with little or no assurance that they will pay their legal bills. Because intake procedures are poor, it ends up being the clients – not the lawyers – who dictate when they will pay.

Even if firms to conduct due diligence when taking on new clients, they may suffer from not billing when services are rendered. They, therefore, accrue large amounts of unbilled time and expenses. Most clients actually prefer to be billed on a monthly basis. Many firms send bills on the firm's cycle – or when the billing attorneys complete their timekeeping reports.

It should come as no surprise to firm managers when their clients pay at their own convenience? Even when clients are willing to pay on time, they often forget why certain services were performed because they did not receive regular statements.

Importantly, many law firms fail to heed the warning signs of slow payment. Bills not been paid within 30 days are the first warning sign of a collection problem. If the firm does not take action to get bills paid quickly, they could easily go past 90 days. Clients conclude that if the firm has waited several months to try to collect unpaid bills, they need be in no rush to pay them. They reason, and unfortunately they are not wrong, that the longer their lawyers wait to collect, the greater chance of bills being discounted or written off altogether.

Taking an Eye Off the Ball

Firm managers can be so busy with their own priorities that they tend overlook the fact that receivables are slipping through their hands. They ignore accounts receivable reports until the year-end push.

A certain amount of complacency has crept into the demeanor of attorneys. Most firms are still allowing them too much individual autonomy concerning their bills, so there is little accountability. As part of their effort to push the work down, senior attorneys often pass responsibility for billing and collections to lower-level attorneys. This is not necessarily a bad thing, but it can be unless senior attorneys provide proper training.

Also, firms are too quick in letting their attorneys embrace alternative payment arrangements. Complex transactions may not lend themselves to a regular payment schedule, which can cause confusion as to appropriate payment if the deal does not come to fruition. Furthermore, risky deals sometimes fail, leaving to a trail of unpaid receivables.

Moving Forward

A firm culture that allows receivables to age cannot be changed overnight. But there are ways to remedy these mistakes and begin healing the process:

- Identify bills that need to get paid and start collecting the accounts. The reports still used by many firms do not clearly differentiate between receivables that are likely to be collected and those that are not. Receivables should be categorized as (1) those that are collectable, (2) those that are problematic, and (3) those that will not be collected.
- Start contacting clients by telephone to inquire about the status of unpaid bills. Law firms lose clients by doing poor work or by failing to deliver clients service, not by asking clients to pay their bills. A growing number of firms are retaining an outside receivable consulting firm to help perform accounts receivable management functions. Lawyers need to understand that collecting receivables is a process and often takes more effort than just sending a letter or two. Also, they should know that clients are not offended by tactful, professional inquiries about their bills.
- Don't get caught up in the aging process. Remember this rule of thumb: When the work is done and billed and the client has the means to pay, payment should be made immediately. If the client has not paid after 30 days, the firm should contact the client because there may be a reason for the unpaid bill. Perhaps there is a question about

fees or services. Don't wait until the bill is 90 days past due to assume that there is a problem. There probably was a problem when it was 30 days past due, but it was never addressed.

- Don't focus on historical patterns of bill collections in which you safely assumed that collections would increase as the year progresses. On a monthly basis, firm management needs to measure monthly revenue projections, and it must be realistic about whether the firm is underachieving in its collection goals. Also, remember that because billings are high does not guarantee collections will be high too.
- Institute pre-qualification of clients by reviewing credit reports and financial statements. Trained staff should be able to evaluate the creditworthiness of new clients and set credit limits. Establish "credit thresholds" on how much clients can run up on their bills before work is halted. Make clients aware of these thresholds. As the economy weakens, the need for litigation services will increase. Lawyers must have a clear understanding about payment terms and whether or not clients have the ability to pay.
- Identify those lawyers who have particular difficulty managing their intake and receivables. Either provide them with assistance or take responsibility away from them altogether. Accountability is key, and management cannot allow itself to be too busy to enforce procedures. Also, management should pay close attention to the No. 1 reason why clients will not be able to pay their bills in 2001: cashflow problems. Teach attorneys that making efforts to get paid for work done is hardly unprofessional. This also means taking more retainers and applying them to the final bill, not the first.
- Take a hard look at each practice area and why clients are not paying their bills. Collection strategy cannot be generic and often requires insight into how clients, practice areas and transactions are set-up. For example, receivables associated with intellectual property clients often have overseas and domestic issues; litigation has many parties involved; insurance areas have third-party payers; corporate clients require special billing formats and approvals; estates and trusts matters pay at various points of completion.
- Don't make the mistake of thinking your firm can collect itself out of a receivables problem. Taking decisive action to collect aged receivables may help cashflow in the short term, but without fundamental changes to prevent collection problems, the lawyers will quickly return to their bad habits and the firm will find itself in the same dilemma down the road. Long-term remedial changes must be made. It is critical for a firm to fully evaluate its client/matter intake process as well as its system for identifying problem receivables early on and taking action before it is too late.

Law firms have little leverage in collecting bills. A well-crafted, consistent receivables-management program will clearly demonstrate to clients that their bills are being monitored, that it is important that they pay them on a timely basis and that the firm is willing to work with them to make sure they are.

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management services, developing practical receivable programs, training, and executive placement of professional collection managers.