In a matter of weeks, so much has changed. The tragedy of September 11 has shattered our sense of safety and altered our views of our own country and the world we live in. The economy has taken a decided turn for the worse, with the decline in the stock market and reduced consumer spending. And the newsletter we sent to you at the beginning of September seems so dated.

In the past 60 days, businesses have begun experiencing cashflow problems because of a decline in demand for products and services. Concurrently, businesses are holding on to their cash reserves and not paying certain vendors timely because of the uncertain future.

Cashflow problems have been the number one reason why clients do not pay bills rendered by law firms. When attorneys agree to alternative payment arrangements, it has been done mainly to assist the client’s cashflow requirements, not the law firm’s cashflow needs.

Increasingly, businesses with cashflow problems are trimming expenses and holding payments to creditors and vendors. Even the largest companies are feeling the effect of reduced cash reserves.

As a rule, businesses have always prioritized payments of bills to vendors. However, those businesses that are experiencing cashflow problems are forced to prioritize payments all the more. This includes companies with strong balance sheets that are experiencing cashflow problems for the first time.

Their first priority is to make sure payroll, taxes, communication costs, utilities and office space leases are paid monthly. Next in line are vendors that are providing continuous products or services such as equipment leasing and office supplies that require immediate payment, but can be delayed for a period of time without discontinuing services.

Last to be paid are bills perceived as being non-essential to the operation of a business. The harsh reality is that legal bills fall into this category. For many businesses, paying legal bills does not carry the same urgency as payment to others.

Clients of law firms have come to expect that nothing negative will occur if they don’t pay their legal bills on time. This is because law firms have conditioned their clients to pay at their convenience without penalty. For example, many firms do not remind clients on a monthly basis that payment is expected. Therefore, clients do not feel obligated to pay promptly. Adding fuel to the fire are lawyers who fail to recognize that there is a point at which they should stop doing work rather than amassing unpaid bills.

Clients often disguise their cashflow problems through delay tactics in order to buy more time to pay their legal bills or avoid paying them altogether, such as: misplacing bills and requesting additional copies, requiring others in their organizations to review bills, questioning services provided or requesting back-up documents to support bills.

Law firms are beginning to react to the adverse economic trends. Many firms are beginning to evaluate how they plan to meet year-end budget, recognizing that the economy has fundamentally changed the rules of the game since the budget was made.

However, the weakening economy during the last quarter of 2001 will expose those law firms that have not truly implemented strong management practices such as proper client intake procedures, efficient billing methods and timely collections.
Managing Receivables at three different levels

Now that you understand the problem, what can you do?

Efforts, in fact, can be made to manage receivables at three levels: firm leadership, the attorneys themselves and the firm itself.

Firm Leadership — Leadership of the firm needs to perform the following functions:

▲ Identify practice areas that historically have had difficulty collecting their receivables by year-end and judge whether the soft economy will have any additional impact.

▲ Identify attorneys who have particular difficulty collecting their receivables throughout the year and assume they will have the same problem collecting at year end. Either provide them with assistance or take that responsibility away from them.

▲ Gather the partners of the firm together to explain the “state of the union” and tell them what needs to be accomplished by year end. Have them review accounts receivable reports and report back to the firm accounts that will not be paid by year end. It may be hard for them to admit it, but it’s better for the firm to have a realistic picture.

The Attorneys — Attorneys need to review their accounts receivable each month, contact their clients by phone, and provide a regular status report back to the firm. The firm should, however, set a minimum balance for which it wants to receive an explanation. Still, even if it does not require a report on the small balances, encourage the attorneys to collect even the smaller amounts; those small balances add up.

▲ If accounts are going to be paid by year end, the attorney must know how much will be paid and when the firm can expect payment. Attorneys should not assume clients will respond to written correspondence.

▲ Attorneys must be prepared to talk to clients about amounts of unpaid inventory (WIP and A/R) that remain outstanding. They should also be prepared to discuss future work that will be performed up to year-end and the timing of payments.

The Firm — Use information and reports to help the collection efforts:

▲ Generate a list of ongoing clients that typically pay the firm’s bills during the last 30 days of the year and determine if these clients are again anticipating paying in full at year-end.

▲ “Get your arms around your receivables” by determining what clients make up the largest dollar amounts of the A/R. Then, get the payment history of these clients to find out how quickly they have paid previous bills throughout the year. For those clients that pay within 30 to 45 days in the past, this may merely require a follow-up phone call. For those clients that have historically paid over 45 days, collection efforts may need to become more intense.

For those bills that are going to be generated from now until year end, have a letter accompany those bills requesting payment by year end and that the firm will be following up on these accounts to make sure they are in line to get paid.

It is certainly a tougher climate that law firms are facing for the last quarter of 2001 than they have faced for a number of years. Yet, with the proper systems in place, even this quarter can remain strong.

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 or our knowledge with you.