

HAVE YOU CHOSEN THE RIGHT PLAYER TO MANAGE YOUR RECEIVABLES? Are You Asking the Right Questions?

Employees who manage a law firm's accounts receivables go by different titles; accounts receivable manager, collection manager and credit manager are the most common. A growing number of firms are choosing to hire such professionals, but do not necessarily select people with the best qualifications. Or they lose sight of how to make the best use of these individuals.

If chosen wisely and used properly, the collection manager (as we will call the position for the purpose of this newsletter) can actually bring substantial dollars to the bottom line. However, if it is not used properly — and expectations are not made clear — the position can end up adding little value to the firm.

Many firms make the mistake of underestimating the challenges of fully integrating this person into the firm's collection efforts. This is largely due to three factors: (1) the autonomy attorneys are typically given to manage their own receivables (no matter how old they get), (2) the easy-going attitude many attorneys have concerning collecting their aged receivables, and (3) the attorneys' belief that clients will react negatively to inquiries about payment status. Compounding the difficulties, managers often come from corporations — where the approach to collections is very different — and become frustrated when attorneys are not receptive to their ideas about managing accounts receivable.

It is crucial to have the support of firm management regarding the position's duties, and equip the manager with the necessary tools and the necessary authority to get the job done. Of equal importance is an understanding of the role you expect your manager to play — and conveyance of those expectations both to the management of the firm and the attorneys with whom he or she will be working.

Whether you are seeking to hire a collection manager or want to get more from the person already in that position, ask yourself the following questions:

Does he or she have the necessary communication skills as well as collection skills? —

Having appropriate collection experience is obviously a prerequisite for the position, yet it is just as important that the individual be able to develop a strong working relationship with the attorneys based on what we call

TACK — Trust, Acceptance, Confidence and Knowledge.

Trust — The attorneys must trust that the collection manager has the

necessary poise and professionalism to talk directly with clients about their outstanding bills. The collection manager must also be able to build an alliance with the attorneys, keeping them abreast of collection efforts to avoid any surprises.

Acceptance — The collection manager must be accepted as a professional who has the expertise and experience to build an effective accounts receivable program tailored to the needs, practice areas and clients of the firm. However, acceptance should be built on the results the manager achieves, not just the ideas he or she espouses.

Confidence — The attorney must have confidence that the collection manager is taking the right measures to collect an account. He or she must both feel accountable for collections and be held accountable. An effective collection manager should be able to collect at least 65% of receivables over 90 days past due.

Knowledge — Despite initial reluctance, attorneys usually come to respect other professionals who have knowledge and expertise in an area where they themselves are weak as well as uncomfortable.

What is the difference between the collection manager position in the legal profession and in the corporate world? — The manager needs to recognize the different collection issues and problems faced by servicing clients within the legal profession, the different practices and the different types of clients — and suggest appropriate collection strategies. He or she should be able to design effective collection methods both for institutional and non-institutional clients. Most importantly, he or she must recognize that while poorly paying or non-paying clients in the corporate world will typically stop receiving products or services and all

efforts will be focused on collections, in the legal world, a past-due client is still a client who will expect continued legal representation. The manager must walk a tightrope, doing everything possible to collect the receivables without hurting the relationships the attorneys have with their clients.

What are the collection manager's priorities? – He or she should devote time primarily to contacting clients to discuss payment status. It is a far better use of the manager's talents and experience than bogging him or her down with administrative duties, such as running reports for attorneys or ensuring reminder statements are mailed.

What type of information should the collection manager be reporting? – The manager should develop reporting systems and processes that succinctly inform management how many accounts (and dollars) the manager has been assigned to collect, when payment can be expected, how much has been collected each week, and why certain accounts cannot be collected. The manager should meet with the appropriate committee in the firm on a monthly basis to report on the status of collection efforts. He or she should measure monthly revenue projections and make adjustments as needed. For the sake of the manager, and the firm, the manager must be able to document his or her success.

What other contributions should the firm expect from its collection manager? – Each firm is different, but the collection manager should be expected to recommend methods to better manage receivables and develop guidelines to help prevent collection problems in the future. He or she should help design methods to detect early warning signs of clients who will most likely not pay their

legal bills. This means designing client intake procedures that allow the firm to evaluate clients' ability and willingness to pay their legal bills before they are taken on as clients.

Does the manager have the technological skills and tools necessary to get the job done properly? – The collection manager needs to have collection software specifically designed for the legal profession and use it to its fullest potential to effectively manage large quantities of receivables. For example, he or she should be able to program software to automatically send e-mails to the attorneys at various stages of the aging cycle to quickly inform them of past due accounts. One collector should be able to handle several hundred accounts concurrently, as many as 75 in a single day. He or she should be able to use the software to classify receivables into different categories to determine when and if clients will pay, and provide status reports for firm management to allow them to make cash flow projections. Keep in mind, however, that while software serves many purposes, it is ultimately the responsibility of the individual – not the software – to actually collect and manage the receivables.

An effective collection manager is far more than a numbers cruncher. He or she must be able to analyze the accounts receivable portfolio to determine not only that clients are not paying their legal bills in a timely manner, but, just as important, why.

The collection manager needs to evaluate accounts receivable on a monthly basis to determine which accounts have aged past 60 days. He or she must determine whether those over 180 days past due are, in fact, collectable (in our experience, only 50% of these receivables can be

collected). A key service to the firm is being able to classify receivables in order to differentiate among those that are collectable, those that are problematic and those that will not be collected.

It is important that the collection manager be a realist. He or she should establish a cost per delinquent account and recognize when unprofitable accounts should be written off.

IN BRIEF: If your firm is among the many that are choosing to hire their own collection manager, or is re-evaluating its current position, keep in mind the following rules of thumb:

- Select people with the right qualifications,
- Make sure that you, the collection manager and your attorneys fully understand and agree on his or her responsibilities and authority, and
- Hold him or her accountable for fulfilling those responsibilities.

One final thought: recognize collection managers as the "rainmakers" they can be. Although they are making rain in a different way than the attorneys, the value they can add to the firm's bottom line can be equally great.

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.



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