

# MANAGING RECEIVABLES: PURSUE THEM OR ACCRUE THEM

*If a law firm is not vigilant about pursuing its own best interests and ensuring prompt payment of its bills, receivables will accrue and often go unpaid. There are many reasons why lawyers' accounts receivable age, but the simple reality is that the longer a receivable is allowed to age, the smaller the chance that it will be paid. Individually and collectively lawyers can take action to recognize the reasons for the difficulties and address the problems.*

## Sticker Shock —

Problems frequently arise when a client expects to receive a bill of a certain size and gets a rude awakening when a much larger invoice arrives. Compounding the problem, lawyers feel compelled to continue working (and building bills) even as the client is disputing existing bills.

**Address the Problem:** Receivable problems occur even before the work begins because of poor communication with the client. Before getting started, ensure that the lawyer and client share expectations about the amount and kind of work that will be done and the anticipated cost. Keep the client informed if significant changes occur as the work progresses.

## Unstoppable Momentum —

Lawyers can get so lost in the moment, so wrapped up in the work they are doing, that they don't recognize that there may be a point at which they should stop doing work rather than continuing to amass unpaid bills.

**Address the Problem:** If a client has not made payment within 90 days, stop work until all bills are current. Realistically, however, there may be ethical reasons why a particular matter cannot be stopped. Avoiding this dilemma is one reason why billing off a retainer is so beneficial.

## It's All in the Details —

Are the bills getting to the right person? Do they include the appropriate (as defined by the client) amount of detail? Do the bills clearly state terms of payment? Failure to get all these details right is an open invitation to delay payment.

**Address the Problem:** At the beginning of the engagement, sit down with the client and show them how their bills will look. This gives them the opportunity to understand their bills upfront rather than holding onto them later for explanation. Make sure all bills have the contact name and address rather than putting that information in a cover letter, which may get separated from the bill.

## The One-Man Show —

Some lawyers mistakenly believe that only they can remind clients of outstanding balances.

**Address the Problem:** Clients understand the need to be contacted about unpaid bills and are not offended by tactful inquiries from others on behalf of the lawyers. Lawyers need to understand that collecting receivables is a process and often takes more effort than just sending a letter or two. They do not have the time and are too expensive at their hourly rates to be focusing on contacting clients. More importantly, they don't

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like asking clients for payment. There are trained professionals who can be hired to assist with this.

## The Silence of the Lambs —

When receivables do become outstanding, lawyers can be reluctant to point that out to their clients. They assume the client remembers the bill is outstanding or they are simply reluctant to bring up the awkward subject of money owed. The longer the lawyer does not say anything, the less likely the bill is to be paid — and even less likely is the lawyer to say anything.

**Address the Problem:** 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 a reminder statement or letter, call the client because there may be a reason for the unpaid bill. Perhaps it's a lost bill or there are questions about the services rendered. Don't wait until the bill is 120 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.

## Taking an Eye Off the Ball —

The economy continues to hum along. Business keeps coming in, realization remains high and things are generally rosy at the firm. Firm management may be so busy building the firm for the future that it is ignoring the reality that a lot of receivables are slipping through its hands.

### Address the Problem:

Accountability is key, and management cannot allow itself to be too busy or too laid-back to enforce procedures. At the very least, management must regularly meet with attorneys to find out when they expect receivables to be paid. Firms must also develop basic reports to monitor the progress of collections and offer attorneys the help of others in managing receivables.

## Passing the Ball —

There is so much work that senior attorneys are pushing responsibility down to lower levels, giving junior attorneys responsibility for billing and collecting from clients.

**Address the Problem:** There is nothing inherently wrong with giving junior attorneys this responsibility. If you do, however, give them the

necessary training and support to do the job right. Set up regular training and discuss the entire process, including when they should request help. Consider turning either to outside professionals or your own accounting staff to teach them rather than senior lawyers; help keep the young attorneys from repeating bad habits..

## The Complexity of the Deal —

Complex transactions sometimes don't lend themselves to a regular payment schedule. They also may cause confusion as to appropriate payment if the deal does not come to fruition.

### Address the Problem:

Management should sign off at the start of such transactions to ensure that the firm is not carrying too many of any given type of transaction, particularly those on a contingency basis. The lawyers must have a clear understanding about the terms of payment with the client. And, with the growing number of deals involving start-up companies seeking capital, the need to evaluate a client's ability to pay is more vital than ever.

**Client Connection assists law firms of all sizes throughout the United States by furnishing accounts receivable management services, developing practical receivable programs and training law firm staff in effective collection methods.**