

## Dog Days of Summer? Not For Long.

### Tips to Help Improve Your Outstanding A/R NOW and Through Year-End

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The summer months are often a time when law firms are not especially focused on the state of their receivables. However, this is an ideal time – before the frenetic days of the fourth quarter kick in – to pay attention and take action to get your financial house in shape. The first part of the year is critical for evaluating how your firm performed the previous year, so it can learn what it needs to do better to manage and collect receivables going forward.

Firms make it to December 31 and breathe a sigh of relief that they made it to year-end safely. Although they may have made budget, they often leave too many unpaid receivables, which keep ageing and becoming more and more difficult to collect. They choose to ignore the amount they failed to collect by turning a blind eye during the year, failing to consider how they could perform better.

*If you do nothing else, take these important steps:*

**1. First, take the lead to determine how well your firm is doing with its A/R management.** At most law firms, everyone shares responsibility for accounts receivable management – which, of course, means that no one really takes full responsibility. Take the time to assess how things have historically been done at your firm and ask the important questions:

- How are we doing with managing our ageing A/R?
- What do we need to be doing differently?
- Do we have the resources to make improvements?

**2. Next, understand what is going on in your firm.**

Whether your firm has an accounts receivable management program in place or it has left it to

the attorneys to decide how they will collect their accounts, step back and ask how successful your firm is in getting paid and why receivables are ageing. Have you allowed your clients too much leeway to pay at their own discretion? Does the make-up and culture of your firm permit attorneys to go it alone in deciding how they manage their receivables (or, in too many cases, NOT manage their receivables)? Do you have an administrative A/R management function but neglect to measure how well it is accomplishing payment?

**3. As a result of your observations, educate the leadership of the firm where improvements can be made.**

Leadership can sometimes be at a disadvantage when trying to determine how to improve A/R management and collections since they are flying at 40,000 feet overseeing the direction and vision of the firm and don't have their ear to the ground assessing why the firm is under-achieving with its A/R management. Provide them with insight on how well the attorneys and staff are performing in getting accounts paid, and discuss best practice solutions to improve collection results, especially with ageing, difficult-to-collect A/R.

**4. Begin communicating about what needs to be done.** Let your attorneys know what the firm is trying to accomplish and show them best practices and strategies that will help to move collections forward. Tell them the firm wants to take decisive action early in the ageing process to combat the ageing A/R that does not get paid. Help them understand that if they desire to collect their A/R themselves, they need to extract from their clients promises of payment and dates when payment can be expected. Let them know

that if they continue to struggle with payments from their clients, the firm has their back; it has resources and know-how to support them in their efforts.

**5. Deal with the backlog of older A/R and establish realistic time frames.** Pursue these receivables actively until they are paid or until you have determined they are uncollectible. Work consistently to make progress and to determine if your efforts will pay off. Typically, firms focus their efforts on those clients that pay timely and give short shrift to older accounts because they take time and can be unpleasant to deal with. Don't make the mistake of thinking these types of receivables will be paid without communicating directly with clients and letting them know their account is being closely monitored.

**6. Get to know your A/R management software better.** The right management software can support and complement your firm's efforts to manage its A/R. However, firms are mistaken in believing that simply by installing collection software, they have minimized their receivable problems. Software has to be paired with effective practices and know-how. Make sure you are using your software to track day-to-day efforts and what tasks need to be completed each day. The software should also provide firm leadership with real, actionable information to show that collection activity is moving forward and progress is being made on its accounts.

**7. Identify bills that will get paid and those that may not.** Past due ageing buckets (61 to 90 days, 91 to 120 days, etc.) are often generic and don't give you a clear understand of the status of unpaid bills. The numbers may be encouraging, but you need to get to the story behind each receivable to determine the probability of getting paid – either within a viable time frame or, at the least, by year-end. At the very minimum, classify receivables for accounts being handled by attorneys and staff to determine:

- Is it collectible?
- If so, when can we expect payment?

- Is it problematic?
- If so, how good are the chances we will get paid?
- Is it simply uncollectible?

**8. Do not rely too much on past history to judge how collections will go this year (and beyond).**

Measure monthly and quarterly projections, and be realistic about whether the firm is underachieving in its collection goals. There has to be a consistent game plan, and it's essential that the plan be realistic and show actual results. Don't wait until the last quarter or December. Figure out now whether:

- Your attorneys are under-achieving in their collection efforts
- Your clients are having difficulty paying your bills and, if so, why
- There are certain personnel or circumstances that are holding back your firm's A/R management productivity.

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***"The secret of getting ahead is getting started."***

**Take action now and you will reduce the stress on you and your firm in the fourth quarter.**

*Client Connection assists law firms of all sizes throughout the United States by furnishing accounts receivable management services and developing practical receivable programs.*