

Are Your Accounts Receivable a Problem for Your Law Firm? Or Are They an Opportunity?

Being Proactive with Your Accounts Receivable Management Program to Enhance Revenue

You can look at your law firm's accounts receivable program in one of two ways. If you are a pessimist, you are likely to see it as a problem — dealing with difficult, ageing receivables. However, if you take a more optimistic view, you might regard it as a chance for the firm to enhance its revenues.

Client Connection suggests you take the more positive, forward-thinking approach and turn your accounts receivable management program into a proactive way to generate revenues for your firm.

Why Does Your Accounts Receivable Management Program Need to Start as Soon as Possible?

The answer is a simple one: to have a solid, consistent cash flow stream, while ensuring the firm gets paid for the work that your attorneys do and detect problems with payments sooner rather than later.

That's the simple answer. Put a little more bluntly, the reason why law firms need a strong accounts receivable management program early in the ageing process is to prevent a domino effect of self-inflicted pain. Firms so often do this by letting receivables age without having effective, results-oriented know-how in place to collect receivables promptly. Here's why:

- When law firms send out their regular monthly bills, and attorneys do not follow up promptly when clients don't pay after 30 days, they are, in essence, saying to their clients: "Pay when you can. Our bill is not a priority. We don't need the money right away."

- With poor follow-up with clients early on, firms lose the opportunity to determine, as soon as possible, whether or not a client can or will pay. This gives the client confidence that they themselves control when and if they will pay.
- Lastly, firms give their attorneys too much autonomy by assuming they are on top of managing and collecting their bills. This leads to the question of whether they have a collections and accounts receivable management problem or a lawyer management problem.

There are certain clients and types of transactions that do not or cannot follow prompt payment guidelines. However, these are the exception and not the rule. Law firms need to understand that these exceptions gain traction and before long become problem-paying accounts as they age. On top of that, firms gain a false sense of security that they have a pot of revenue just waiting to be paid, when what they really have is a wealth of empty promises.

Here is what you need to focus on:

- Put into play the most effective practice management strategy for getting accounts collected early in the ageing process, rather than having to devote the far greater efforts necessary for collecting receivables over 90 days.
- Manage your clients' expectations, so that they know that they will be contacted early in the ageing process. By showing clients that the firm is in regular contact and is monitoring their payment status, they will understand that payment is expected.
- Keep timely collections a priority throughout the year, rather than putting them off until the final days of December. Too many firms are still locked into the misguided notion that "if we bill, they will pay." Although waiting until year-end may work for some institutional clients, consistent efforts all year will prevent a lot of blood, sweat and tears at year-end.

How to Move Forward?

Before deciding what direction your firm should take in building an A/R program to address receivables early in the ageing process, take a step back and evaluate what would work in your firm, considering your firm's size, culture, practice areas and management objectives. Accounts receivable management is not a one-size-fits-all program. It needs to start small and grow, based on measurable collection results.

- Analyze what is going on in your firm. Have we relied too much on clients paying at their own discretion? Does the make-up and culture of our firm permit attorneys to go it alone in how they manage their receivables? Have we built an A/R management infrastructure without measuring how well it is performing?
- Have an honest conversation, understanding why the firm needs to do a better job in managing its A/R. Recognize that you cannot entirely revamp your collection practices overnight. Review step-by-step how the firm manages its receivables now—from the time the first bill goes out to the point at which you have problem older receivables.
- Start small, think big and build consensus. On one hand, you truly want to embrace institutional thinking and manage your receivables as a business, putting practices and processes in place. On the other, you want to give individual attorneys some autonomy, recognizing the different circumstances that may impact payment from clients. Meet with your attorneys to let them know your goals. Tell them that the firm wants to take decisive action throughout the ageing process, starting between 30 and 60 days. Help them understand that they need to collect the A/R themselves or get help from the firm's accounts receivable management team.

The Perils of Older, Difficult Receivables

Older receivables will not magically disappear. They will actually continue to grow and require much more time to get them collected. In many cases, the firm has a good idea why the client is not paying, but rather than resolving the issue early on – during the first 90 days – when the problem was small, it allows the problem to grow.

These receivables must be actively pursued until they are paid or determined to be uncollectible. But do not expect payment without substantial effort

on the part of the firm. There must be dedicated efforts, with status reports going to leadership to ensure progress is being made. Typically, firms focus their efforts on those clients that pay timely and avoid working with older accounts because they take time and are often not pleasant to deal with. Consistent follow-up efforts are the key to making progress with these types of accounts.

Dealing with problem accounts may give you a wake-up call to evaluate your accounts receivable needs and develop a strategy to ensure they avoid the bad habits that result in old receivables. Learn from your mistakes – and determine why your clients did not pay your bills.

- Do you have internal issues that prevent you from flagging problem accounts early?
- Do you give your clients too much flexibility in giving them more time to pay?
- Is your staff up to the task of keeping on top of ageing receivables?
- Are you giving your attorneys too much leeway in pursuing older accounts?

Keeping Collections a Priority Year-Round

Too many law firms continue to think collections is an easy process – all you have to do is remind clients to pay and they will. If only that were so. More and more, clients are savvier about their payments, and many take considerable time to pay. Throughout the year, firms must stop tolerating “good clients” who just don't pay their bills. Although waiting until year-end may work for some institutional clients that typically pay at year-end, many clients require much more effort throughout the year. Continue to measure monthly revenue projections, but more importantly, be realistic about whether the firm is underachieving in its collections goals and if the firm has developed bad collection habits. Help your attorneys understand that when they see problems with older and difficult A/R later, many of these problems actually started earlier in the ageing process – when action could have been taken. ■

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



Accounts Receivable Management Solutions for Law Firms

Get in touch:
800.236.8232
972.378.0407 fax

Visit us at our website:
www.clientci.com