

CLIENT CONNECTION

Accounts Receivable Management Solutions for Law Firms

If you would like to receive, "Client Connection Connects," our short monthly accounts receivable management tips, via e-mail, please send an e-mail to info@clientci.com.



Client Connection has been helping law firms with accounts receivable management for over 23 years. So now seems to be as good a time as any to take stock on how well law firms are progressing with their accounts receivable issues and the challenges they face in making improvements.

While law firms want certain expectations and guidelines in place to support their accounts receivable management efforts, what we often find lacking is the will of the firm to understand that managing accounts receivable is a step-by-step process that requires ageing receivables to be closely monitored, analyzed and managed until payment is made. Too often we see law firms turn a blind eye during the year to their collections process, only to realize too late that more attention was needed.

What starts to happen is that assumptions are made at all levels: firms assume attorneys are vigilant in getting clients to pay; attorneys assume clients understand payment obligations; leadership assumes receivables are being actively managed; and everyone assumes staff assigned to accounts receivable efforts understand their duties and are actively pursuing accounts. And the vicious cycle persists – without getting to the root of the problems.

Now is the time to get ahead of these assumptions and start asking questions to ensure your firm is on the right path – especially going into the last part of the year. If you have taken the time to put processes and measurements in place to ensure your firm is getting paid as you would expect, then start to assess whether or not they are working. You may be surprised that things are not working as expected. An honest evaluation can only help improve your firm's bottom line.

Let's start by going beyond false assumptions. Let's ask questions we need to answer – because you know what happens when you assume...

1. Going into year-end, what role should firm leadership play in A/R management and collection efforts?

Effective receivables management starts from the top. No matter what time of the year it is, firm leaders need to be able to tell the attorneys to address their receivables and not underestimate why clients are not paying. Also, because attorneys are very busy servicing their clients, leaders need to understand the importance of enlisting other resources to help them achieve desired results. Take stock of what you are (and are NOT) doing – and why – and evaluate what works. Look at everything, including how your firm historically has managed its receivables, in order to determine where changes need to be made, and certain client payment patterns that need to be addressed. Assess whether you have the right people, with the right skills, in place to do the job right. Both the attorneys and the A/R staff have a role to play. To make real progress, understand that everyone managing receivables must adhere to best practices to help deliver strong results. And don't underestimate the need for a roll-up-your sleeves attitude and implementation to ensure progress is being made.

2. With all the information we have regarding our accounts receivable, what should we be paying particular attention to? A/R reports must give firm leadership real, actionable information; they need to show that collection activity is moving forward, and progress is being made on each account. Detailed reports should provide information on whether accounts are actively being pursued, what the payment status is, who is pursuing collections and how often, what success they are having, why clients are not paying, and what steps are being taken to get them to pay.

3. How can we overcome the backlog of older, difficult A/R to be collected by December?

Typically, firms focus their efforts on those clients that pay timely and avoid working with older accounts because they take time and are not pleasant to deal with. Because the older receivables require more time and effort, there's no better time than the present to determine payment status – so start now! There must be dedicated, consistent efforts, with status reports going to the leaders of the firm to show that progress is made. Do not allow your attorneys to delude themselves into thinking ageing receivables will be paid without focused efforts. Law firms are making a big mistake if they think these types of receivables will be paid without working closely with clients and letting them know your payment expectations.

4. Attorneys are still reluctant to make A/R management a priority because they don't want to hurt their client relationships. How can we take action while respecting their concerns?

Remind your attorneys that many other businesses are contacting their clients for this reason, so it is entirely reasonable for you to do the same. Educate them on various techniques and strategies for contacting clients that will keep their relationships strong. Law firm lose clients by doing poor work or by failing to deliver client service, not by asking clients to pay their bills. Managing receivables will not hurt the relationship, as long as it is handled professionally.

5. How can we make the most of our dedicated administrative staff?

The staff should not be focused on keeping the attorneys happy by getting them copies of bills and reports; anybody can do that type of administrative work. Instead, determine what age of receivables they are working: Is their success with good paying clients that just need reminding, or are they pursuing older, difficult accounts? Also, determine how many direct contacts they make daily with clients and how many accounts they are handling.

Most importantly, determine their success rate, especially the older accounts that continue to age. Staff that are involved with A/R often have other day-to-day duties that can take away from their collection activity. However, be aware of the amount of time other administrative functions cut into their primary A/R duties – directly contacting clients regarding the status of unpaid bills.

6. What problems do law firms experience concerning the slowdown in payments?

Clients may experience "sticker shock" when they expect to receive a bill of a certain size and are surprised when a larger one arrives. Further exacerbating the problems, cash flow struggles and hoarding of cash are two other reasons clients pay slowly or do not pay at all. They may claim that they are not satisfied with the services provided or unhappy with the results. This is why it is critical to contact clients regularly and consistently about unpaid bills early in the ageing process. When payment problems start to surface once bills begin to age past 90 days, the reality is that many of these problems occurred earlier but went undetected or unnoticed. Clients conclude that if the firm has waited several months to contact them for payment, they can wait to pay.

7. How do we make our A/R management efforts a priority throughout the year instead of waiting until the last couple of months?

Too many law firms continue to think A/R management is an easy process – all you have to do is remind clients to pay and they will pay. But more and more, clients are more savvy and smarter about their payments, and many take considerable time before they pay. Throughout the year, 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. Be realistic about whether the firm is underachieving in its collection efforts and if it has developed bad A/R management habits that lingered all the way to year-end. These include attorney explanations of "I'm not sure why they have not paid," or "I thought they paid," or "There must be a mistake with this report." Most of all, the dreaded response – "I will get to it" – certainly should not give the firm any comfort that attorneys are making A/R their priority.

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