

Answers to the 10 Most Frequently Asked Questions about Accounts Receivable Management



Dear Clients and Friends:

Every law firm is different, but nearly all of them share common accounts receivable challenges. To help firms address their collection problems, we have compiled a list of the questions we hear most frequently from law firms, and offer our answers:

QUESTION 1: How should we evaluate our firm's accounts receivable management needs and strategy to ensure we are making progress?

ANSWER: Begin by asking: do we rely too much on clients paying at their own discretion, or can our collection results be attributed to the direct follow-up efforts of the firm? Change can be difficult, especially with so many priorities to attend to. But the bottom line is the bottom line.

Take the time and effort to evaluate if you have accounts receivable management best practices in place. Start by determining:

- Are accounts actively being pursued at certain ageing points, or are follow-up efforts stagnating?
- What is the payment status on accounts? What can be done to speed up the process of getting payment information? What are the chances of not being paid?
- What is the time commitment necessary? What is the skill level of those pursuing unpaid bills, and how much of a priority are they devoting to the efforts? What success are they having, especially with older accounts?

QUESTION 2: What role should our firm leadership play in A/R management and collection efforts?

ANSWER: Effective receivables management needs to start from the top. Leadership must have the ability to tell the attorneys to address their collections, but also understand the need to call on other resources to help them achieve results. To begin, firm leaders need to perform a self-evaluation to determine what the firm is doing right and what you could be doing better. You need to do a thorough self-assessment of the firm's A/R management practices and procedures. Take stock of what you are doing and why – and evaluate what is and is not working. Look at everything, including how your firm historically has managed its receivables, to determine where changes need to be made based on today's legal profession and how clients pay. An important aspect of this is assessing whether you have the right people, with the right skills, in place to do the job. This involves two groups - attorneys and A/R staff. Understand that everyone managing receivables must be held to high standards of accountability to ensure progress is being made.

QUESTION 3: We have policies and procedures for our attorneys to follow. Why are they not working?

ANSWER: This is a difficult dilemma for many law firms. It is important to have strong, detailed procedures, which are common in most businesses, but law firms are often challenged because there are so many complicated transactions and relationships that do not lend themselves to timely payments. However, all law firms should take a clear position on what they expect concerning accounts receivable management and communicate their expectations on collections to the attorneys.

Processes need to be workable, and exceptions must sometimes be permitted – but closely monitored to ensure that exceptions do not become the rule. Giving too much individual autonomy to the attorneys is often the root of a firm's accounts receivable problems.

QUESTION 4: How can we best overcome the backlog of our older, difficult A/R?

ANSWER: These receivables must be actively pursued until they are paid or determined to be uncollectable. But lawyers should not delude themselves into thinking that they are going to be paid without effort on the part of the firm. These must be dedicated, consistent efforts, with status reports going to the leadership of the firm 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. You are making a big mistake if you think these types of receivables will be paid without working closely with your clients and making them aware their account is being monitored.

QUESTION 5: We have a variety of information regarding our accounts receivable, but the information doesn't help us determine what we should do and what problems we should address. What kind of A/R management information should we be looking at?

ANSWER: A/R reports have to 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 what success they are having,
- why clients are not paying, and
- what steps are being taken to get them to pay.

QUESTION 6: How should we evaluate administrative staff dedicated to managing and collecting our A/R?

ANSWER: The staff should not be evaluated on how well they keep the attorneys happy by getting them copies of bills and reports; anybody can do these types of administrative work. Rather, determine what age group of receivables they are working; Is their success with good-paying clients that just need reminding, or are they making collecting older, difficult accounts the focus of their efforts?

Also, determine how many direct contacts they make daily with clients and how many accounts they are handling. Most importantly, determine how many actual dollars they are collecting, especially the older, difficult accounts that continue to age. If your staff is handling e-bills, identify how many of these accounts they are handling and how long it is taking to resolve these issues.

QUESTION 7: We are reluctant to put an A/R management program in place at our firm because our attorneys don't want to hurt their client relationships. How can we respect their concerns yet put one in place?

ANSWER: You need to educate your lawyers on various techniques and strategies for contacting clients that will keep their relationships strong. It is vital that they understand that law firms 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. In today's evolving economy - and in the face of changing law firm economics - it has become a best practice to contact clients early in the ageing process to inquire about payment status and determine when follow-up is needed if payments are not made. Also, to help ensure success, do not be reluctant to hire professional staff with experience in accounts receivable management for the legal profession.

QUESTION 8: How can we help clients understand payment expectations and train them to pay timely?

ANSWER: The business environment has evolved; mindsets have changed and so have business practices of all types. Because you are doing business in a different world and making adjustments accordingly, you need to routinely communicate with your clients about unpaid bills to ensure timely payment or resolve problem issues. Past collections experience should not be ignored, but in these changing times, it may not be entirely useful as a guide. Although some clients have set rules of when payments will be made, firms must institute regular, steady, professional follow-up of unpaid bills to secure dates of when payment can be expected to help guide future follow-up. By showing

clients that the firm is regularly contacting them and monitoring their payment status, they will learn that you are well-aware of their bills and that you expect payment. However, sometimes it becomes the attorney's problem because he or she is uncomfortable about asking for payment and grants too much leeway about timely payment.

QUESTION 9: Do law firms need to improve their communication efforts?

ANSWER: Many law firms have relied - very much to their detriment - on a culture of collegiality and camaraderie among the attorneys to set the tone for how they approach getting paid. Firms struggle with how they communicate to their attorneys on what is required of them. At the same time, attorneys have a knack for hearing only what they want to hear on how they should pursue clients for payment. On top of this, there are other issues that hamper firms' efforts to get paid - different practices with different clients can experience different difficulties - requiring different A/R management strategies and techniques.

Stop discussing it endlessly with your attorneys. Recognize that there is a time when it is most effective to make your attorneys aware of what needs to be done in detail and ask that they follow the firm's request. It will not get you far to just tell your attorneys: "Go collect your accounts."

At all levels, get past the erroneous assumptions:

- Firms assume attorneys are vigilant in getting clients to pay;
- Leadership assumes receivables are being actively managed;
- Attorneys assume clients understand payment obligations; and
- Everyone assumes staff assigned to A/R efforts understand their duties and are actively pursuing accounts

QUESTION 10: How do we make our collection efforts a priority throughout the year instead of waiting until the last couple of months?

ANSWER: 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 pay. But increasingly, clients are savvy about their payments and may 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 then, many clients require much more effort throughout the year. Be realistic about whether the firm is underachieving in its collections goals and if it has developed bad collection habits. Help your attorneys understand that when they see problems with older and difficult A/R later in the year, many of these problems actually started early in the year - but there was nothing done about them.

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