

ABA Law Practice Management Section

Law Practice Magazine

July/August 2012 | THE LAW FIRM PROFITABILITY ISSUE
Volume 38 Number 4

Accelerating Receivables for Greater Profitability

By Kevin C. Harris and Allison Renaud

About the Authors

[Kevin C. Harris](#) is a project manager for financial and practice management software developer Orion Law Management Systems Inc., which provides front and back office solutions, including accounts receivable collections.

[Allison Renaud](#) is the director of finance for Des Moines, Iowa-based law firm Dickinson, Mackaman, Tyler & Hagen P.C.

IT DOESN'T MATTER IF YOUR FIRM IS IN THE AM LAW 100 with offices around the world or a solo shop with a single office: You have an accounts receivable (A/R) department—and it plays a vital role in keeping your firm solvent. It makes sure all billable hours get rewarded. And the efficiency with which it operates influences how quickly your firm's invoices get paid—and sometimes whether they get paid at all.

A number of factors, from typical firm billing practices to current economic difficulties, conspire against successful A/R performance. You can't control all of these factors, but you can do a few things to get paid sooner if you understand why your invoices age in the first place.

WHY INVOICES AGE

Studies show that the more an invoice ages, the lower the chances of collecting payment. And the value of that payment, if it ever arrives, is far lower than the number on the check, thanks to inflation and the labor involved in collecting said payment.

In concrete terms, unpaid or underpaid invoices mean tens or hundreds of thousands of dollars' worth of written-off revenues each year—money that the law firm had earned but never collected. These write-offs occur for a number of reasons.

LACK OF BILLING POLICIES

It might seem like a good idea to collect money owed for services rendered as soon as said services are rendered, but that isn't how lawyers traditionally bill. They typically record hours worked and then send clients monthly invoices for those hours.

Contrast this billing practice with that of accountants, doctors and dentists. They invoice clients right when they finish delivering those services.

There's a skeleton in this closet: Not all lawyers have billing policies, procedures and collection processes, or they don't follow the ones they do have. That's why many lawyers ignore A/R until they run into cash-flow or collection problems.

BILLING TAKES TIME

While this state isn't ideal, it is easy to understand. A/R processes at the midsized firm Dickinson, Mackaman, Tyler & Hagen in Des Moines, Iowa, have, until recently, kept three full-time employees very busy. While this kind of effort helps the firm maintain a low invoice write-off rate, that kind of nonbillable work isn't something many lawyers want to do, and the partners don't want to pay for it.

A POOR ECONOMY

In these difficult economic times, the harmful cash-flow effects of losing track of a firm's billing get compounded with longer payment cycles as increasing numbers of clients struggle with their own cash-flow issues.

THE WRONG A/R TOOLS

Many of these problems also stem from not always using the right tools. For instance, firms may track invoices using low-tech, manual tools, including spreadsheets or systems that spit out A/R reports, from which they compose invoices, collection letters and other client correspondence. Low-tech approaches offer few opportunities for time-saving automation or firmwide collaboration.

GETTING INVOICES PAID

Attorneys who better manage their A/R can improve cash flow while decreasing both collection times and costs. Consider the following tips to improve your firm's A/R performance:

Make your firm's payment policies clear up front. Clearly state policies and expectations in every client engagement letter. Stick to those policies at all times.

Bill promptly and consistently. Credit card companies maintain their credibility in part by invoicing clients at the same time every month. Your firm needs to do the same thing for the same reason. Invoicing late can cause clients to dispute bills. Business clients may complain about the inconvenience of adjusting a previous month's closed financial records. In such disputes, attorneys may feel compelled to discount late invoices to placate justifiably irate clients.

Make your invoices easy to understand. Add extra information to each line item, such as the name, title and hourly rate of specific people who performed services for a client. Providing that extra information goes a long way to earning your clients' trust.

For convenience, include a "dashboard" on each invoice that includes previous balances, money in a retainer or a trust, and other information about the client's account.

Build personal relationships with clients. Although smaller firms may find this easier to do, building a personal relationship with your client lessens confrontation should invoices need to go to collection, and fewer invoices may end up there in the first place.

In keeping with the old adage about catching more flies with honey, collection letters themselves can be kindly worded and can offer payment plans for clients in financial difficulty.

Contemporaneously track time. Lawyers need to track their time as they work, not later. Failing to do so can lead to difficulty remembering when which type of work was done, billing errors, billing delays and clients challenging invoices.

Use technology, such as phones that work with telephony application programming interfaces (TAPI), so that time spent on the phone with a client is easily tracked to A/R systems. Spend a few moments to note what was said during each call as well.

Smartphone and tablet apps, including iTimeKeep and Airtime-Manager, make tracking time on the road a snap. They allow for journaling what was done during work intervals and can also upload information to A/R management systems.

Make attorneys share responsibility for collections. Have the firm base a portion of attorney compensation on collected invoices, not just gross billings.

Don't let invoices go unpaid for more than 60 days. After an invoice reaches 60 days past issuance, assign one person to follow up with the client. Remember, the longer an invoice goes unpaid, the lower your chances of collecting monies owed.

If all else fails...accounting should not permit lawyers to open new matters for clients who are in arrears. To help maintain the client-attorney relationship, such clients can be directed to accounting to settle past due invoices.

INVEST IN AN A/R MANAGEMENT SYSTEM

Implementing all the tips listed above need not be a haphazard process. Firms that use an A/R management system can implement many of these tips (to varying degrees) systematically.

Firms can also build policies and procedures right into the technology system. This makes them easier for staff to follow, while encouraging the kind of firm-wide collaboration on which successful ongoing A/R performance is built.

IMPROVE EFFICIENCY

Sophisticated systems enable substantial time savings during the production of invoices and other client correspondence. For instance, producing and sending reminder statements and copies of invoices to one specific attorney's clients who have invoices 90 days past due ought to involve little more than this:

- A search in the A/R management system for clients who fit the bill (pun intended).
- The execution of a process that generates and assembles required invoices, plus template-based collection letters.
- It should not involve this:
 - Printing an entire list of clients
 - Manually searching for clients who require 90-day notices
 - Manually creating, printing and assembling invoices and letters

Time savings spring from such conveniences. After installing an A/R management system, Dickinson, Mackaman has found that one accounting staffer can now handle the monthly billing cycle instead of the previously required three people.

All three people in accounting are using the extra time gained to:

- Build personal relationships and trust with clients by talking to them one-on-one about their accounts
- Learn how to back each other up in various roles, such as collections, payroll and bank reconciliations
- Focus on big-picture things such as cash-flow planning, budget analysis and forecasting

OTHER BENEFITS

A/R management systems can do more than save time and ensure staff follows policies and procedures. Lawyers can reduce the time they spend thinking about A/R when it takes less time to do things, such as identifying invoices to be written off (or flagged as doubtful) to accounting. When they're on the road, they can upload billing information from smartphones and tablets directly into the system.

Sophisticated systems can even bidirectionally synchronize contacts, calendar appointments and tasks with Microsoft Exchange, which makes other efficiencies possible.

INCREASE YOUR CHANCES OF GETTING PAID

The economy has yet to truly turn around, and there is no magic bullet for collecting from some types of clients. But law firms that set up more-effective A/R processes to get their invoices paid sooner stand a better chance of weathering current economic conditions. They also set themselves up for improved profitability in the years to come.