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## Making Partnerships More Profitable

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### Also This Month

#### Upcoming Events

There are no events coming up this month. Please check back soon.

#### In-House Training

Our CPD accredited training can be a cost-effective way to ensure you achieve results throughout your firm that will impact on bottom and top lines. [More information](#).

#### The Profitable Partnerships Programme

This law firm business development programme helps partners and key solicitors to measurably and sustainably improve business development performance and profitability. We deliver tracking of performance across a range of key indicators, from new clients and instructions to monthly billing rates. [More information](#).

#### Blog

Get involved in the debate - read our posts on the issues and challenges confronting your industry, and provide your own opinions on our [Blog](#).

#### Cash Management for Law Firms – Ark Group Sector Report

Recognising our expertise in the area, Wilkinson Read & Partners have written a definitive sector report on

Tuesday May 31, 2011

### Successful Partnerships

Dear Associate,

This month Barry Wilkinson addresses the pitfalls of cash flow management, and Anthony Wilkinson presents some preliminary findings from our research into the Future for Independent Law Firms.



Any comments are gratefully received.

The WRP Team.

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### The Pitfalls of Cash Flow Management

The [announcement](#) that a number of the UK's top and mid-tier firms are planning either a 'cash call' on partners or to withhold drawings highlights the importance of taking a strong approach to cash flow management.

In my recent [article](#) for Managing Partner Magazine, I underlined six key pitfalls to avoid in successfully controlling cash flow:

1. Lacking a distinction between profit and cash flow;
2. Lacking distinction between core and cyclical funding;
3. Distributing uncollected profits;
4. Using borrowings for unintended purposes;
5. Focusing on margins - to exclusion of timing & structure
6. Focusing reporting and management on history

#### Profit is an Opinion

But cash is a reality. Retained earnings appear on virtually every company's balance sheet, but rarely on a law firm's. Profits can be declared long before any sign of the cash.

However, partnerships, including LLPs, are income vehicles not growth vehicles, so partners naturally want the profits to be distributed as soon as possible. Overdrafts have therefore been extended to allow drawings prior to cash collection.

Cash Management for Law Firms. The report, available [here](#) from publishers the Ark Group, addresses in detail the cash flow challenges facing legal firms of all sizes, and details specific strategies for improving cash management and achieving rapid yet sustainable results.

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## Profiting from Pipelines

A five-stage pipeline can help fee-earners to understand how to generate cash from their efforts:

- Get client
- Get work
- Do work
- Bill
- Collect

This can change the lockup cycle by a month or more – reducing borrowings by that amount of turnover. Most work types have a natural cash cycle – fee-earners can often tell how much a matter is worth and how long it should take.

Once a matter is opened, it is in the pipeline and attention is placed on time elapsed. A fee-earner's role is to ensure every job is completed within standard – exceptions are monitored and over time greatly reduced.

Please email [barry.wilkinson@wilkinsonread.co.uk](mailto:barry.wilkinson@wilkinsonread.co.uk).

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## Beyond ABS – Preliminary Findings

We are currently analysing in detail the findings of our research into the future for independent law firms, but a few issues are emerging clearly at this stage.

One interesting point is the lack of consensus on how things could look in three to five years' time. A majority of respondents felt that market consolidation would have either no impact or only a minor impact on their firm.

### No 'Big Bang'

Most felt that 60-90% of their direct competitors would still be independent in five years' time. This supports the view of one senior banker – that, while the effects are still an unknown quantity, “there is unlikely to be a ‘Big Bang’”.

All respondents acknowledged that there would be some third party capital entering the market. However, while some felt that this would be concentrated right at the top of the market with the large city and international firms, others believed that the aggregation of smaller firms by new, low-cost entrants is a likely outcome.

### A Strong Response

All underlined the importance of quality service and strong client relationships. Competing with low-cost competitors will be difficult, and a number of respondents advocated a greater degree of specialisation in the markets they serve, as well as in the products and services they deliver.

### Technological Challenge

Another constant theme was the increasing importance of technology. Use of information processing technology to improve efficiency, alongside more moves to offshore and nearshore locations, were frequently highlighted.

Similarly, a number mentioned the use of internet-based technologies, including online social media, to provide greater flexibility in communication with clients.

#### **Core Competencies**

What seems apparent is that most managers believe they will succeed by sticking to their core competencies and retaining a relentless focus on outstanding service.

The full White Paper will be available in the next few weeks. To receive a copy, please email [anthony.wilkinson@wilkinsonread.co.uk](mailto:anthony.wilkinson@wilkinsonread.co.uk).

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