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Making Partnerships More Profitable

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## Also This Month

### Upcoming Events

For more information and to register for an upcoming event, simply click on one of the following links.

03/05/2011 - [Would You Invest in Your Business? Examining Alternative Business Structures](#) - Birmingham, 3 CPD Hours

05/05/2011 - [Would You Invest in Your Business? Examining Alternative Business Structures](#) - Manchester, 3 CPD Hours

10/05/2011 - [Would You Invest in Your Business? Examining Alternative Business Structures](#) - London, 3 CPD Hours

17/05/2011 - [Would You Invest in Your Business? Examining Alternative Business Structures](#) - Newcastle, 3 CPD Hours

19/05/2011 - [Would You Invest in Your Business? Examining Alternative Business Structures](#) - Cardiff, 3 CPD Hours

### The Profitable Partnerships Programme

This law firm business development programme helps partners and key solicitors to measurably and sustainably improve business development performance and

Thursday April 28, 2011

## Successful Partnerships

Dear Associate,



This month Barry Wilkinson assesses the impact of a billing shortfall on partners' profits, and Simon White discusses the attributes of a successful managing partner. We would also like your views on The Future for Independent Law Firms.

Any comments are gratefully received.

The WRP Team.

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## Survey - The Future for Independent Law Firms

We are currently carrying out research into the future for independent law firms and would appreciate your views.

Please take **10 minutes** to complete our online [survey](#).

All participants will receive a copy of the White Paper we produce with the results.

Thank you in advance for helping us to make this project a success.

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## The Missing Ten Percent

At the end of the financial year we are seeing the same pattern emerging in a number of firms

Total billing will be around 90-95% of the target. Most fee earners feel that's "not bad" as a return. In many markets times are still tough and billing targets set in more prosperous times will be difficult to achieve.

profitability. We deliver tracking of performance across a range of key indicators, from new clients and instructions to monthly billing rates. [More information.](#)

### **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.](#)

### **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 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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However, fee earners still expect to be paid 100% of their salary. The result of this is clearly a shortfall, which can only be made up from the partners' profits.

### **Hitting the Bottom Line**

The inconvenient truth is therefore that the billing shortfall impacts directly upon the partner's profits.

In many typical mid-market firms, the annual profit margin budget is around 20%. If revenue is 10% below target, then the profit will reduce by 50% - meaning, of course, that the partners take home 50% less in drawings.

There are realistically only two viable responses:

- Overhaul the firm's cost structure; or
- A stronger approach to performance management

### **A Strategic Approach**

The first requires strategic cost management, not knee-jerk cuts. Unfortunately, law firms are largely fixed-cost operations, with the bulk of those fixed costs being accounted for by the salaries of employees. Reducing costs sustainably means turning fixed into variable and taking a realistic attitude to the size of the firm's overheads. Many firms are simply overstaffed.

The second response means getting more from existing fee earners. Genuine performance-related pay is a fact of life in many business sectors, and there is no reason why law firms should be an exception.

For most firms, the answer will be a combination of the two approaches. Managing partners must take responsibility for their firm's business performance...

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## **Managing for Success**

As Barry has pointed out above, managing law firms for success requires a strong focus on the financials, combined with the ability to get the most out of the firm's people. This is a skill set that will be enhanced by experience – but that also demands talent and intuition.

### **Partnership Buy-in**

Managing partners need to engage the firm's people and get buy-in from the partnership for the decisions they take, by communicating their rationale – and the benefits for the partners. The market will be changing significantly and firms need to be responsive to these changes. Having one or two partners 'on side' is not enough; the partnership must be united behind the managing partner.

This is not necessarily easy to achieve in a business full of independent-minded, intelligent and often quite risk-averse

owners. Experience only goes so far, and in selecting a managing partner in the first place the partnership must look for someone who has the ability to 'read between the lines' when dealing with people.

#### [Managing the Partners](#)

The managing partner should be able to judge what their partners really mean even when, taken at face value, their opinions could be ambiguous, and the same goes for clients. Being a good judge of personalities and understanding what makes a person 'tick' is important, and the managing partner should have the confidence to trust their instincts.

The markets firms operate in will be changing a great deal and it would be easy to say 'this won't affect us'. The managing partner needs to be hard-nosed when it comes to market development, and this also means knowing when to launch aggressive moves vis-a-vis competitors and when to be patient, waiting to see how things unfold.

Many of these things cannot be taught – but they can be honed through dedication, hard work and, above all, the confidence that the decisions being taken will lead to success.

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