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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](#).

Wednesday August 31, 2011

Successful Partnerships

Dear Associate,

With just over a month before Alternative Business Structures officially hit the profession, it's time for independent law firms to be looking to tidy up their businesses, to make sure they can continue to compete and maintain their independence.

Any comments are gratefully received.

The WRP Team.

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Managing Clients for ABS

We have always taken the view that clients can be categorised according to their value to the firm - in terms of how much revenue each client generates, client profitability, and ensuring that payments fit with the firm's cash cycles.

The A to D of Client Categorisation

Some clients will be a pleasure to deal with, paying bills in full and on time, coming back regularly and providing referrals and introductions for the firm. These should be the firm's 'A' clients. They are of high value to the firm over an extended period of time, and should be treated accordingly.

The 'B' clients will be those good clients who use the firm relatively frequently and refer business wherever possible. There will be more 'B' clients - they provide steady streams of income and, although not of such high value as 'A' clients, are extremely important for the firm's profitability.

'C' clients are generally one-off transactions. They are again important for the firm's cash flow and profits, but are unlikely to provide long-term relationships.

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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'D' usually stands for 'delete'.

The Process of Client Categorisation

Someone, usually a partner and often the managing partner, should pay the 'A' clients a visit. Whether they are business or private clients, the firm must be completely in tune with the client's objectives and plans, and the question should be how the firm can best meet the client's needs.

A similar conversation should be held with 'B' clients, but this can be done over the telephone. In both of these cases, if there are any problems with unpaid bills then this should form part of the conversation.

With 'C' clients, the important thing to establish is the referral point. Once this has been done with all clients, referrers can then be categorised in the same way – ABC.

In a post-ABS profession, the winning firms will know their market and will know their clients' requirements, and they will be prepared to meet their clients' service expectations.

Please email simon.white@wilkinsonread.co.uk.

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Financial Management for ABS

In a post-ABS legal market, those firms with an unrelenting focus cash flow will enjoy a competitive advantage.

The key to boosting cash flow is to ensure that lock-up is kept to a minimum and, again, categorisation is an important component.

Categorising Debts

The place to start is at the end of the pipeline – with debtors. Many firms have been surprisingly lax on pursuing debtors, but all debts must be chased up if the firm is to secure a healthy cash position and maintain profitability.

In the 'A' category are those clients who are of very high value to the firm, and must therefore be handled with great care. Usually, a partner or senior fee earner will have a relationship with that client, and in this case it should be the individual in question who has the conversation with the client about paying the bill.

It is important to remember that clients do not necessarily remain in the same category permanently, and clients who consistently do not pay their bills on time cannot be considered good clients.

'B' debtor should be dealt with much in the same way as 'A' clients, but if payment is not quickly forthcoming then there should be a process for escalating pursuit of payment.

'C' and 'D' clients should in most cases be pursued by the accounts team from the beginning.

If payment is not forthcoming, 'C' clients quickly become 'D' clients, and there comes a point at which either legal proceedings begin or the debt must simply be written off.

WIP should likewise be dealt with in a focused and efficient manner. Allowing WIP to build up before submitting a large bill does not help the firm or the client, and in many situations interim billing can be used to smooth cash flow.

Changing the Balance of Presumption

The balance of presumption must be positive – every piece of work should be billed at the agreed time, and every debt should be chased up until paid – unless there is a good reason to the contrary.

Fee-earners' desire not to upset 'their' client is not a good reason, and cannot be allowed to get in the way of the firm's imperative to improve cash flow. This applies to partners as much as it does to anyone else in the firm.

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