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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

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

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

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

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

The Profitable Partnerships Programme

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

Monday February 28, 2011

Successful Partnerships

Associate,



Following last month's [video analysis](#) of the challenges facing law firms, we focus on how firm's can maintain their independence. Simon White reassesses the law firm's purpose as business, and Barry Wilkinson addresses the economic drivers underpinning financial success.

Any comments are gratefully received.

The WRP Team.

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Purpose and Focus for an Independent Future

In the coming consolidation, firms with the requisite financial strength will be able to complete mergers or acquisitions largely on their own terms, although due diligence will of course be a crucial necessity.

On the other side of this coin will be the 'consolidated'. The imperative here is to ensure that the firm is strong enough to retain leverage in the M&A process.

The final possible position, and one which many firms may try to adopt, is to stand aside. However, the middle of the market will be squeezed to such an extent that consolidation will transform the business environment, even for those firms that currently operate profitably and with financial freedom. None can afford to ignore this.

Redefining the Business's Purpose

We have often found that law firms' Vision and Mission statements represent little more than a token exercise. Firms wishing to prosper as independent businesses in the new market will need much more.

All stakeholders within the business must actively engage

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.](#)

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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with the firm's direction, and must be actively involved in defining the purpose of the business. This will involve a conscious articulation of the target market, suitable clients, the services the firm will provide and the method of delivery.

From this the roles and responsibilities of all people in the firm can be defined. This will mean not only fee earning roles, but Business Development and Client Relationship Management tasks, and a firm focus on the bottom line – the profitability of all elements of the business.

Maintaining Focus

A clear purpose will mean nothing if this is not pursued with a relentless determination. This focus must be on those measures that really matter. Client acquisition will be vital, but fee earners must also be both confident and disciplined enough to turn down business that does not meet the firm's criteria.

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Economic Drivers for an Independent Future

Underpinning financial success in the new legal market will be a fundamental reassessment of the economic drivers of law firm profitability.

History and Law Firm Profitability

The first premise on which law firm economics has historically been based is a simple one: "we buy and sell hours". The 'commodity' being bought and sold is the knowledge and expertise of individual fee earners, bundled up into units of time.

Underlying this approach is a second premise – that the market will bear the costs of production, plus a margin for the firm. Thus, pricing has been very much dictated by a 'cost-plus' mentality. Of course, the implicit third premise is that everything produced will be sold.

The focus in terms of economic drivers and performance management has been maximising time. This means that law firms have concentrated on the actual delivery of services, almost to the exclusion of the other elements of the package – client acquisition and servicing.

The New Economic Reality

This approach worked in a growing market, where the suppliers held the upper hand. However, with price now largely determined by the market, the fundamentals of this premise have been destroyed.

Law firms are no longer buying and selling hours, but are now selling services. The focus therefore needs to be moved firmly onto minimising the input per unit of output.

The costs of client acquisition and servicing must be

factored into the package. Simply put, some clients are worth dealing with – and others are not. The main criterion is not how many hours is a client billed, but how profitable their business is to the firm.

Technology is completely changing the balance in service provision. Firms are capable of being far more productive thanks to advances in labour-saving technology, but this must be factored into the cost structure – as it will certainly be factored into the client's perception of value.

The Bottom Line

Ultimately, maximising billable hours is no longer a suitable measure of performance. Success must be judged by profitability, and this will be underpinned by a clear understanding of the return on investment - investment in technology, in client acquisition, in client care and servicing, and in any other inputs.

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