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## Also This Month

### Upcoming Events

27/6/2012 - [Understanding Cost Structures and Effective Cost Management for Law Firms](#) - London Masterclass with Chris Bull, of Edge International

### 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,

Thursday May 31, 2012

## Successful Partnerships

Dear Associate,



This month our guest contributor, David Gibbens of Poole Waterfield, discusses potential business structures and the implications of incorporation, and Barry Wilkinson considers how firms can get more for less through effective cost management.

We are always happy to receive guest contributions. If you have an article you would like to share with our readers, please contact [anthony.wilkinson@wilkinsonread.co.uk](mailto:anthony.wilkinson@wilkinsonread.co.uk).

As ever, any comments are gratefully received.

The WRP Team.



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## Barry Wilkinson Elected to the Executive Committee of the Law Management Section

Barry Wilkinson has recently been elected to the Executive Committee of the Law Society's Law Management Section (LMS).

The team at Wilkinson Read would like to thank everyone who supported Barry's election.

More pertinently, as the only member of the Committee based in the Midlands, Barry would be very keen to hear from anyone who may have suggestions, comments or concerns to be considered by the Committee.

If you have anything you would like to raise with Barry, please do not hesitate to email him at [barry.wilkinson@wilkinsonread.co.uk](mailto:barry.wilkinson@wilkinsonread.co.uk).

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## Is the Time Right to Incorporate?

For many law firms, deciding on the right business structure can be perplexing. This is a particularly challenging issue

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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for a number of reasons, including:

- Uncertainty about the potential options
- Concerns about obtaining agreement from other partners or stakeholders, such as the bank
- The time, effort and cost involved in change
- Questions over future tax treatment or the effectiveness of limited liability
- Fear of the unknown

### Alternatives and Implications

Assuming that the starting point is a traditional partnership structure, there are four main options:

#### 1. Traditional Partnership

A very common choice, but in truth somewhat archaic – with the twin burden of unlimited liability and an often unfavourable tax regime.

#### 2. Limited Liability Partnership

A less invasive change than full incorporation and can appeal to those who do not have the appetite for anything more fundamental, particularly where tax is not a major issue.

#### 3. Limited Company

Whereas LLP profits are taxed on the individual members personally, companies are taxed in their own right under Corporation Tax rates. The individual shareholders/directors are then taxed according to how they are paid. Structured in the right way, companies can be very effective in terms of tax management.

#### 4. Hybrid Incorporations

There are a variety of structures that can be used, often combining LLP and company status, but in most cases such complexities are probably unnecessary for achieving an effective structure.

### The Importance of Advice

Many firms are considering these issues in a bid to become more adaptable and tax-efficient, and to limit risk. Changing the business structure can help in all of these areas, but good advice is needed to avoid undue pressure from tax commitments on the cash resources of the business.

Limited liability can also be something of an illusion; personal guarantees may be sought, and pre-existing liabilities transferred to a company can still attach personally to the old partners until they are repaid.

A higher level of minimum indemnity insurance cover is required for companies and LLPs, and there will be some public disclosure of the business's accounts at Companies House.

Incorporation is likely to be a very good option for many firms, but it is a change that must be approached carefully and on the basis of sound advice.

David Gibbens is Director of [Poole Waterfield](#) chartered accountants.

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## More for Less - Again

Professor Richard Susskind has again predicted that fee rates will fall by up to 50% in the next few years, as a result of pressure from clients.

The key phrase that he is now using repeatedly is "more from less". As ever, the response to his projections has been mixed, to say the least!

However, leaving aside the exact numbers, these suggestions provoke two key questions:

- Are major reductions likely to be demanded – and if so, why?
- Are they achievable – and if so, how?

### Deregulation and Low-Cost Competition

In answer to the first, deregulation leading to the advent of ABS has removed many of the barriers which limited competition and the prospect of such a profitable market will tempt new entrants.

Competition in itself will continue to force down prices, except possibly for niche players, and technology will accentuate this process.

Because of the pressure from low cost competitors we suspect that, in due course, Professor Susskind's predictions may come true, but perhaps led more by the supply-side than the demands of general counsel.

### How can firms respond?

The first step is to proactively manage the cost structure in all its aspects, and to ensure that every item of expenditure provides value to the clients – rather than reactively responding if demand falls.

The key focus should not be just on "what you spend" but on "what you get for what you spend". For some kinds of expenditure this will mean spending more (to make more) rather than less.

Many firms will have to spend more on marketing and business development simply to stand still. In most cases this cannot be in addition to existing levels of expenditure, it will have to replace something else – most probably unproductive or inefficient staff time. The performance and operations of fee earners needs to come under the same degree of scrutiny as that of support staff.

### Hard Choices Ahead

For those firms whose value proposition and client selection is based on quality and service rather than low prices, this approach will provide most of the answer. It may involve hard choices, but the change can largely be evolutionary rather than revolutionary.

However, firms whose market position exposes them to the full force of price competition face a starker choice – either copy the low-cost producers or outsource to them.

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## Masterclass Discount - Understanding Cost Structures and Effective Cost Management for Law Firms

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This Masterclass, presented together with [Chris Bull](#) of Edge International, introduces a systematic and structural approach - rebalancing expenditure to simultaneously eliminate waste, whilst spending more on things which make money - an approach which many traditional firms have found difficult, but which is second nature to newer ABS type organisations.

It will guide you on the best methods to establish the necessary reductions and suggest alternative remedies to ensure your firm maintains profitability. You will have the opportunity to utilise the skills acquired by creating your cost management project.

A discount of 10% is available to subscribers to this bulletin, using the code MCD-10 until Friday 8th June.

For more details, please click [here](#).

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