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Making Partnerships More Profitable

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Also This Month

Upcoming Events

18/10/2012 - [Using Financial Efficiency to Reduce Cost and Increase Profit](#) - Webinar

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

Friday September 28, 2012

Successful Partnerships

Dear Associate,



This month we continue with our focus on the attributes of winners in a deregulated market. Barry Wilkinson discusses the financial strength firms need for independence (or investment), and Simon White introduces client selection and the importance of saying 'no'.

As ever, any comments or shares are gratefully received.

The WRP Team.



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Financial Strength for Independence – or Investment

As the legal sector is no longer seen by bankers as being low-risk and high-value, and is therefore a less attractive lending proposition, firms need to make sure that they have resources of their own.

This means both having capital subscribed by the partners and at least considering the possibility of external investment.

The long-term culture of profit extraction means many firms lack a buffer for a rainy day, but they also do not have the resources available to fund expansion.

Focus on Cash Flow

Firms must develop an absolutely relentless focus on cash flow and cash generation, to create sufficient balance sheet strength to fund growth – this is not a good time to be relying on debt to fund the future.

The first action should be to ensure that all partners are aware of the cash flow imperative, and to make sure that fee earner standards include measures that will improve cash flow.

[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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Those standards should not be limited to chargeable hours, but should also include aged WIP and debtors, and rewards should be linked to the level of lock-up by fee-earner, department and, ultimately, across the firm.

Strengthening the Balance Sheet

Cash flow can be greatly improved in a short period of time through such a dedicated lockup reduction programme, and this will strengthen the balance sheet – an important factor in any potential investment decision.

Different work types have different cash flow profiles – Personal Injury and Clinical Negligence will take much longer from instruction to cash than Conveyancing or Company Commercial work – and the firm should be absolutely sure that it can fund its work, through a healthy mix of debt and equity.

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Client Selection

Client selection is an issue that many firms do not even consider. In most cases, the focus is on how clients select the firm they intend to instruct, and this is of course a crucial matter, but as David Maister has consistently argued, 'strategy is about saying no'.

Currently, many firms are prepared to take on any business from any client, provided that they are prepared to pay a price - whether or not the firm is any good at it, and regardless of whether the firm can make a profit from it.

No Time for Compromise

However, if a firm is serving a wide range of different clients for different work types, they may end up compromising and not satisfying anybody.

Going forwards, it will be increasingly difficult to serve diverse markets – the skills and resources required to compete in high-value, relationship-based services and lower-value transactions are becoming increasingly divergent.

Moreover, within and between work types all clients are not equally profitable, and firms need to focus on those that they can profitably service.

Analysing Clients – Analysing Profitability

Firms should first profile their ideal clients and analyse their current client base, in terms of the type of work, the method of delivery and communication and, crucially, how profitable each client is.

There should thus be a system of grading 'good' and 'bad' clients according to how easy or difficult they are to deal with and whether they pay in full and on time.

The partners can then look at the markets the firm operates in and consider whether specific departments require

investment, cutting back or even divestment.

Ultimately, law firm strategy means consciously deciding what sort of work the firm wants to do and, just as importantly, what the firm will not do – and having the courage to turn down clients and work that do not fit the bill – especially in terms of profitability.

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Coming Soon: Independence Self-Assessment

One of the issues we come up against most frequently is the fear in medium-sized firms that the partnership's independence is threatened.

We have carried out research with partners in independent firms and defined 20 attributes of winners - two of which are discussed in this bulletin.

We will soon be releasing a self-assessment tool, where partners can score their firm on each attribute - and identify the firm's strengths, as well as areas for improvement - so watch this space!

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