

# PETER SCOTT CONSULTING

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### **Consolidation will be driven by client demands and the need to compete**

Identifying that '*something*' which will enable a law firm to build its competitive advantage over rivals is now ***the critical task***.

It is often said that the only real test of success for a law firm is ***client satisfaction*** and therefore efforts should be focused on delivering this. Anything less will not do.

***The most valuable input*** on this fundamental question is likely to be objective feedback from the key market participants that matter most in a firm's current sphere of operation, or where it is considering extending into. This will require a law firm to ***listen*** to, not only existing clients, but also prospective clients and those who regularly refer work to it. It is becoming less and less relevant how lawyers see themselves. The objective in seeking such feedback will be to indicate the nature and required levels of its future performance if it is to successfully compete, by:

- providing input into its strategic thinking with a view to expanding what it provides to, and the share of business it wins from its current clients;
- ascertaining how it is perceived by clients, referrers and the market place;
- identifying any clear requested improvements or gaps in its capability against what its market needs, both currently and in the future, or what competitors are providing;
- identifying any significant strengths and weaknesses against relevant competitors;
- indicating levels of client awareness and receptivity to current services and how these may need to change;

Such feedback is likely to identify what drives ***client satisfaction*** levels and ***choice of law firm*** and if a law firm can focus its efforts on these fundamentals then it is more likely to outperform rivals.

Key matters identified will often include:

### **Lack of Resource**

Clients of law firms perceive that many are lacking sufficient resources to compete with their larger and more developed competitors. Moreover, feedback from clients and referrers in response to surveys often reveals there to be a clear distinction between the kinds of work they would give to a particular law firm, and what would go elsewhere.

Reasons for using another firm often include the following:

- *specialist expertise or knowledge not available at the firm;*
- *larger deals go elsewhere where greater resources are available than are perceived to be available at the firm;*
- *The 'IBM' factor, particularly where outside stakeholders are involved and the reputation of a 'bigger' name is needed for reassurance*

Feedback such as this highlights the ability of larger firms to develop **greater resource** and to win work and, as a result gain a competitive advantage over firms with less resource. However, even some of the very largest law firms recognise their need to develop greater resources if they are to remain competitive in global markets and this is driving merger activity both in the UK and internationally between some of the largest players.

The issue of resource is a particular problem for firms in what might be called the '**squeezed middle market**' which are often too large and lack sufficient focus to be niche and are too small to compete with their larger, more developed and better resourced rivals. Such firms should not attempt to be all things to all men. Being focused on a limited number of areas of work or sectors at which they are good and for which they are known, is likely to be a more sensible and successful way forward in the longer term.

Areas where sufficient resource is critical to building competitive advantage include:

- **Depth of expertise**

In today's highly competitive legal markets, having sufficient breadth and, importantly, sufficient **depth of expertise**, requires building teams in focused areas. If clients or referrers perceive a firm as lacking the depth of expertise to compete with larger rivals then they are likely to migrate to those larger firms.

Expertise is a people resource issue and there is a particular 'people problem' which cannot be ignored, especially by small and mid – sized firms. That problem is **succession** and when faced with impending retirements, too many law firms put their heads in the sand and do not make sensible plans for the future. The result is often that an area of expertise and the related client base are lost when a retirement occurs.

On the other hand, succession issues for small firms which have focused expertise can be an opportunity for acquisitive firms to take over small firms and to develop their expertise for the future.

- **Management and infrastructure**

Law firms also now require a minimum level of management and infrastructure to be able to operate efficiently, profitably and compliantly. Too many firms are still unable (or unwilling) to spend what is required to meet a minimum level of infrastructure to support and enhance their businesses in areas such as finance, technology, training, knowledge, HR, , risk and compliance and business development. The smaller the firm, the greater proportion of its income will need to be spent on providing for management and infrastructure.

- **Strong financial resource**

To provide that focused resource of expertise and management infrastructure will require strong financial resource which will need to be invested in those areas where it can be most successfully and profitably utilised.

However, the investment required by many law firms to achieve competitive levels of **client satisfaction** and **preferred law firm status** is likely to be beyond the financial resources to which many partners are able or willing to commit.

Organic growth, while an attractive option for some, can devour large amounts of cash and depress the profits of a firm for a long period of time before the 'investments' begin to provide pay-back, and can never be guaranteed. There needs to be a balance between '*jam tomorrow*' and sustainable profits going forward at a level which ensures a firm is sufficiently competitive to recruit and retain the best people. This balance is difficult to achieve when there is a heavy investment programme in organic growth which is stretching the financial resources of a firm.

On the other hand, it is now increasingly common for law firms which have listened to their clients, to conclude that they cannot achieve their objectives on their own. This becomes the genesis for considering consolidation as a means to achieving a greater competitive advantage.

However, a word of caution. Consolidation is not in itself a strategy – it is a means to an end, which is to gain a competitive advantage. Most often consolidation will aim to provide a stronger and more viable platform for future growth to enable two or more law firms together to achieve their shared strategic goals.

Consolidation is also not about size for the sake of size, although it is about what size can help generate – which is the resource needed to help the combined firm gain competitive advantage over rivals.

## **A plan to test your ability your firm's competitiveness**

Markets are changing all the time and client needs in the future will be different. To compete, law firms need to continually test themselves.

For example, would better knowledge about any of the following help you to secure your firm's future and to help you answer the question ***"What kind of law firm do we realistically need to become?"***

- What are our most profitable opportunities?
- What is the potential demand for new specialisms?
- Where should our firm position itself and build capability to gain more profitable business?
- How is our firm perceived by key clients and referrers, and how does it compare to our key competitors in fulfilling these needs?
- How can more revenue be generated from our current client portfolio?
- How can we evidence a robust revenue stream when talking to potential new partners, merger partners or investors?
- How can we reduce client loss?
- In which of our clients is there untapped potential for more work?
- In which of our referrer relationships is there untapped potential for more work?
- How can we improve the return and revenue from our marketing and business development efforts?
- How can we ensure all of our investments help improve revenue growth and profitability?

Set out in the **Appendix** are some further questions which may help you to better understand whether you have a need to improve your firm's resource base and if so to decide whether some form of consolidation may be needed. Answering 'Yes' to any of these questions may indicate that a lack of resource is preventing you from achieving the competitive advantage you are seeking.

A tested business case as to whether consolidation with identified targets could help to provide the resource needed to build a stronger platform to achieve strategic goals should

be developed. Consolidation based on a strong business case, if well implemented, can help to build long-term sustainable competitiveness and profitability.

To do this, a firm should put itself into the position of its clients, because successful consolidation will above all need to be good for clients and meet the “wow” test as in ***“Wow. That will be good for us!”***

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## Appendix

<b>TESTING YOUR NEED FOR CONSOLIDATION</b>	<b>YES</b>	<b>NO</b>
Have you lost valued clients and good people to firms which are larger and more developed than your firm?		
Have clients or referrers told you that there are gaps in your service offering?		
If so, is a lack of financial or people resource preventing you from filling those gaps in your service offering?		
Has a client ever used a competitor firm in preference to you because you were not considered by the client to have the necessary knowledge or expertise?		
Have you failed to win work from clients which work was instead won by firms which are larger and more developed than your firm?		
Do you have a clear, achievable and fully resourced plan to plug any gaps in your ability to provide clients with what they want from you, to ensure continuing client satisfaction and loyalty?		
Are there potentially any profitable markets, areas of work or sectors which you have concluded you will not be able to access on your own because of lack of resource?		
Do you have clients or referrers of work who individually each represents more than 5% of your turnover?		
Are you on a client’s panel of law firms which is regularly reviewed and where that client represents more than 5% of your turnover?		
Are you finding it difficult to ‘stand out from the crowd’ and create meaningful differentiation from your competitors?		

Have you concluded that you will not be able to achieve your realistic strategic goals on your own?		
Are you unable to improve profitability because your firm lacks economies of scale and efficient use of people or other resources?		
Have you been unable to retain or to recruit people you really wanted?		
Is succession an issue for you now, or will it be an issue for your firm in the next 5 years?		
Are you able to afford to fully resource your management and infrastructure needs, including <ul style="list-style-type: none"> <li>- Leadership</li> <li>- Finance</li> <li>- Business development</li> <li>- Risk and compliance</li> <li>- HR</li> <li>- Technology</li> <li>- Knowledge</li> </ul>		
If you currently do not have one, would it be desirable to have a full time managing partner or CEO able to successfully lead your firm?		
Are there any changes necessary in your firm which currently cannot be implemented because of your inability to have access to sufficient resources or for any other reasons?		