

PETER SCOTT CONSULTING

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Which way now for law firms?

Continuing problems in financial markets and difficult economic conditions are presenting law firms with challenges they have never experienced before.

Demand for many areas of legal services is reduced as the economy falters and some legal markets may take a long time to recover, if ever. These challenges are now forcing many law firms to urgently rethink their future plans because *yesterday's strategy may become tomorrow's disaster*.

On the other hand, difficult times can provide an opportunity to make changes that are long overdue.

In the environment in which law firms currently exist and will in the future have to compete to survive, they must continually adapt to the changes that are fast taking place around them. For complacent firms, the changing world is passing them by and they will now have to play 'catch up' to survive, but for some that may not be possible.

Developing strategies to compete successfully

What do law firms need to do to ensure a competitive edge?

- There is a need consistently to provide clients with services **they** require;
- Those services must be provided for clients at prices which **they** consider '*value for money*'; and
- Firms will need to do both of these consistently better than rival law firms.

How can law firms develop clear, realistic and focused strategies to successfully compete in this way in their chosen markets?

Firms which fail to adapt to the changes being demanded by their clients risk becoming trapped in a potentially downward spiral, increasingly incapable of providing clients with the services they demand.

Failure to adapt to change to maintain competitiveness in this way, is also likely to lead to an inability to recruit and retain the best people. The best talent will migrate to those

firms that have kept pace with change and adapted, and so can offer the most attractive career prospects and the highest rewards. It is those firms that, as a result of having the best talent, win the more profitable work.

For a firm to be able to compete successfully on a sustainable basis requires the development and implementation of strategic plans for every aspect of the firm and how it is to operate. A firm is a complex and multifaceted organisation, the parts of which are interdependent and, like a machine, must work together in harmony. **Integrated strategies** will need to be developed covering, *inter alia*:

- the firm's people and how they are to be valued and rewarded;
- building strong relationships with clients;
- winning new business;
- the organisation and governance of the firm;
- managing knowledge and risk;
- managing financial performance;
- the effective use of technology.

'Strategy' is a word which is often widely misunderstood and misused. It is important to ensure that everyone involved in planning strategy understands what is meant by 'strategy' and the process upon which they are about to embark. In particular, it is important to differentiate strategy from a wish list of unrealistic and unachievable objectives, and from the process of implementation of that strategy.

There are many definitions of strategy. Because strategy is about forward planning, then one way of approaching the process is to use the following quite simple definition which has been used effectively with law firms:

Strategy is

- *a realistic plan to gain competitive advantage,*
- *which has clear and achievable objectives, and*
- *utilises available resources.*

The development of a strategy for the future direction of a firm will require the owners of the business to think hard about their firm, where it should be going and, in particular, what they collectively and individually want to achieve for the firm and for themselves, professionally and in their personal lives.

The subsequent process of implementation is then about turning that thinking into positive attitudes and behaviour which facilitate the achievement of realistic and agreed objectives, using the firm's existing resources or resources which can realistically be generated over a given period of time.

The systematic analysis, planning and decision-making processes a law firm needs to go through to arrive at an agreed competitive strategy will inevitably need to focus upon those factors which are currently and will in the future bring about change. All the forces being exerted on a firm and its marketplace need to be taken into account in order to ensure that a firm really understands what its clients want and the reality of its situation.

Specifically, a firm should examine:

- its positioning in its market - the **external perception** of the firm; and
- its values - the **internal attitudes** held within the firm.

This is needed so that a strategy for its future development can be formulated which realistically recognises the true nature of the firm and its market position, and ambitiously but realistically sets out a *vision* of what it can become, incorporating stated objectives which stand a good chance of being achieved.

However, strategic direction is a moving target which constantly needs to be kept under review. Those firms which have in the past established clear, realistic and focused strategies as a means to build greater competitiveness, and have worked hard to turn their plans into practice, have more often than not seen their investments bear fruit. However, even they may now need to rethink their plans in the light of changed market conditions and put them on hold or reverse them.

External perceptions - what do our clients value?

Given that client satisfaction is at the heart of being competitive, if a law firm feels it is at a crossroads (as many do at the moment) and not sure how best to go forward, then it should start with the basics, by taking a long and hard look at its changing markets and listening to its clients (current and prospective), as there is often a 'perception gap' between how clients and others view a firm, on the one hand, and how the owners of the firm view themselves.

Clients have the clearest perspective on what they (and the market) value and therefore what a firm should do to ensure its competitive edge.

The attached note set out at the end of this Briefing Note by my *Winning Firm Alliance* colleague Robin Dicks examines how to obtain this invaluable client feedback and contains a link to a self - review of a firm's current client feedback processes.

Internal attitudes

Levels of performance in law firms are set by the marketplace, being driven by clients' needs. However if the majority of owners of a firm choose a lifestyle and working environment that is inconsistent with achieving the levels of performance necessary for it to be competitive in its market then, unless those attitudes change, that firm will set an uncompetitive course dictated by those values and attitudes.

Those who manage law firms may believe they know how their partners and staff think, what they value and what they aspire to, but perceptions can be very different from reality. Identifying at the outset what partners and staff value is vital if a firm is to achieve the standards required by the marketplace.

If partners in a law firm are going to buy into a strategic plan, their views should be carefully canvassed and assessed, because managing change is usually about the 'art of the possible'. How many 'strategic plans', which logically would be the right thing to do, sit on shelves gathering dust because those driving the strategic thinking have failed to understand the limits of what was achievable within a particular group of partners?

Questions such as the following may need to be asked:

- *Are the values/culture/behaviours of our partners and staff consistent with the delivery of what our clients require from us?*
- *Are all our partners clear as to their roles and what is required of them and prepared to embrace a new culture which will require a higher level of performance?*
- *Have we identified and articulated within the firm the skills and behaviours which are to be valued, measured and rewarded if we are to reach this higher level of performance?*
- *Do we have people in the firm with the requisite skills and abilities to enable us to achieve our objectives?*

Other useful questions to ask internally to gauge where the partners (and staff) stand on important issues may include the following:

- *Why do you come to work?*
- *What do you like most about your work?*
- *What do you most like about this firm?*
- *What needs to be changed in this firm?*
- *What do you see yourself doing in [five] years' time?*
- *How many jobs did you pass to other partners last year?*

- *Which other partner passed most work to you last year?*
- *What kind of firm do we realistically want to be?*
- *Are we really happy only earning £[x]?*
- *Are you prepared to let [senior partner/managing partner] visit your clients to talk to them about the quality of service we provide to them and what else we might do for them?*
- *Are you prepared to do what the [managing partner] tells you to do?*

From such external and internal feedback it should be possible to develop a vision, tempered by the external and internal forces of reality, and take forward the process by focusing on questions such as:

- *What kind of firm can we realistically become?*
- *Do we all (or most of us) want to be part of that kind of firm?*
- *If so, how will we turn our ambition into reality and over what period of time?*

Get your firm into shape

The future for many law firms currently looks bleak and survival is likely to depend upon how determined they are to take action now to get themselves into shape to meet and overcome the serious challenges facing them. This cannot be a task to be relegated to shallow and uninformed discussion at an ill-prepared partner retreat which produces much hot air but little or no action. It will require a great deal of committed time and effort dedicated to resolving pressing issues if progress is to be made.

Currently, the very survival of many law firms is at stake. Those who lead, manage or own law firms need to focus all their efforts not only on securing the survival of their firms but also on laying the foundations for future prosperity, by challenging their firm's thinking, by facing up to their 'sacred cows' and by taking difficult but necessary decisions in order to adapt successfully to the unprecedented changes impacting upon them.



Over £1.5bn of law firm revenue in the UK estimated “at risk”

In a time when many law firms are keen to secure any appropriate means of growth, it's perhaps troubling that so much of their current work and client portfolio can be described as “at risk”. More surprisingly, often the law firm isn't aware of the fact and is thus powerless to do anything about it.

What's the evidence for this?

Firstly, research commissioned by the FT, together with Managing Partner's Forum, identified that there are major gaps between the performance of major law firms, as partners and management see it, and what their clients perceive.

The FT research shows that fully 80% expect a much more consistent service from their professional advisors than they are currently getting. Most clients (75%) believe it is critical that their professional advisors understand their business plan, and a similar number (74%) say that they expect more added value from advisors.

But the ability of many firms to identify this is poor. Consistently, in our experience of gaining feedback from clients on behalf of law firms, we find that around 10-15% of their client base is actively considering stopping use of a firm, or significantly reducing the work which they give to them, and the firms hitherto have been completely unaware of this.

The total revenue of the top 200 UK law firms alone is over £15bn, therefore meaning that up to £1.5bn could be at risk. But the problem is by no means confined to the biggest firms (in fact it is if anything higher in mid sized firms) so this understates the impact for the UK legal profession. The risk being borne is damaging the future prospects of firms of all sizes.

Of course, sometimes this risk only finally emerges when a firm is asked to retender for work (unfortunately sometimes firms are never asked to retender). By this point of course, a firm is often on the back foot and the client is already experiencing some disquiet, or believes that they can gain better value for money elsewhere. This issue will intensify - the FT study also revealed that 31% of clients expect that procurement processes and tendering will play a greater role.

Why does this come as a nasty surprise for some firms?

The answer is that many firms do not have the right processes in place to gain the right client feedback effectively, or act on it.

It's clear that clients of law firms do expect senior partners to engage with them and find out about their businesses. However, they first need the skills to do this. Clients also expect that their law firms will seek robust, independent, objective feedback from clients about their performance and use that insight to refine what they do. *Indeed, the gathering of independent client feedback on these issues was rated by clients of law, accountancy and consulting firms as the most important activity they should invest in over the next 3 years.*

In this way firms can not only reduce the 10% of revenue that is at risk, but be in a better position to identify those clients where there are hidden opportunities for more work. How can they do this?

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The most valuable input

Clients have the clearest perspective on what they (and the market) value and what your firm should do to secure growth from this. They want you to ask, and they want you to use the information.

Independent research doesn't replace the dialogue which you have with clients, but it provides much more meaningful and usable feedback on key issues.

Some of the questions that can be asked of clients include:

- What are the key objectives you have, and the challenges you face?
- What are the key opportunities and risks you will face over the next 12-24 months?
- What factors determine who you retain/continue to use for legal advice?
- How would you describe Firm X? What are their strengths and weaknesses?
- How does the firm perform in key areas of client service and delivery?
- Which are the most important areas?

Clients can also be asked to provide feedback on how aware they are of the firm's specialist capabilities, and how relevant they are to them. This can create huge improvements to the return on marketing investment.

As well as the risks, in our experience unknown opportunities are discovered in about 25-30% of a firm's key clients. There is short-term financial as well as strategic payback. Some examples of insight from clients and referrers demonstrate this:

"There is market potential here and need for expertise in employment law"

"We are looking at the level and volume of transactions we have...(B) on his own cannot undertake them. We have servicing requirements ... (B) is stretched, and needs more resource that isn't there."

"We haven't explored all potential areas...with (Firm C) on risk management"

"We are on a relentlessly upwards growth plan... and making significant investment"

"They don't really have their own champion/ability to describe exactly what they do...they've got the critical mass but they don't leverage it"

"What would happen if in the panel process (Firm D) were up against a firm who were as good at (technical advice) but better at the added-value things?...They would reduce their risk if they were to increase their strategic input"

Yes, but... "...we know what our clients think already!" Very true – *in part*. Firms often know 50%-70% of what objectively gained client feedback uncovers. But the 30-50% makes a huge difference.

It's what doesn't get discussed openly, because of day to day pressures, because it's not relevant to the transaction at hand, or because it's very difficult for the client to tell their main contact (and for the main contact to ask). It might include the fact that they need complex advice in a new area (but aren't sure if your firm has this capability). It might be how your firm can get many more referrals.

Ensure that client feedback activity delivers financial and strategic results

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In general terms, its important to be clear about what you what to achieve from the feedback process, and then utilise the right methods to achieve this. You should think about the clients and contacts that should take part, and communicate with them in a way which improves their perception of the firm.

A free self-review of your firm's current client feedback processes, which allows you to compare your current activity with the practice that achieves financial results, is available at:

<http://thrivingcompany.profitdiagnosis1.sgizmo.com/s3/>

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