

# EFFECTIVE STRATEGY REVIEWS

'Strategy reviews' can be useless. They can pussyfoot around, desperate to avoid causing offence; they can reflect a profound wishful thinking; or they can be accurate but fail in the implementation. Here **TONY WILLIAMS**, who steered Clifford Chance through a period of intense strategic planning in the 1990s, outlines the way in which strategy reviews should be done.



Tony Williams

**T**he so-called 'strategy reviews' undertaken by some law firms can be best described as 'business reviews'. The firm looks at its current practice groups and offices, it factors in some growth in headcount, billable hours and charge-out rates, and then assumes - on the basis of past performance - that further growth is maintainable and sustainable.

This approach falls far short of the best practice applied by major corporates and indeed by a few law firms when undertaking a real strategic review.

To undertake an effective strategy review it is necessary to consider:

#### **The market outlook**

Are economic conditions such that growth in key markets is realistic? Will new laws impact market activity and are new entrants emerging? Are new markets opening up that you need to serve? This may be geographical (e.g. China or India) or industry specific (such as insolvency, health and safety and construction).

#### **The buyer of services**

Will your buyers of legal services increase or reduce their legal spend? Should you assume that you can grow the share of the legal spend of your clients? Will panel reviews (e-billing, say, or a forthcoming change of general counsel) damage or enhance your firm's position? Will your clients look to outsource some routine legal work to cheaper countries e.g. India?

#### **The competition**

Who are your major competitors in each of your major service lines or locations? Are they improving their position in the market? Are new entrants (including US firms) aggressively trying to enter your market? How differentiated is your offering from that of your competitors and is such differentiation sustainable?

#### **Your resources**

Do you have partners and lawyers who are capable of providing a differentiated service? Will any forthcoming partner retirements affect this? How stable is your team? In particular are you able to hire laterally to boost your team or is your practice under threat of poaching by more profitable or more focused firms keen to develop further in your area?

#### **Your strengths**

Is the current balance of your firm appropriate for the market? Should some practice areas or offices be de-emphasised or closed so that resources and investment can be redirected to areas capable of generating stronger and more sustainable growth? Can you recruit the quality of staff you need? Is your IT and know-how system adequate for your planned development?

#### **Risk Factors**

What risks is your strategy subject to? For example, what effect would the takeover and subsequent loss of some of your major clients have? Is your practice dependent upon a particular product that could become obsolete by regulatory or tax changes? Are your practice groups dependent upon a booming economy? Are any of your practice groups sensitive to interest rates? What impact might bird flu or a major terrorist outrage have on your business?

This may look like hard work, and to some extent it is. However given that many law firms are multi-million-pound businesses it is appropriate to apply real rigour to the process.

Although the legal market is not as transparent as some, information is available to law firms. A firm can track its ranking in the major legal directories against its competitors. Comparing one year's entries may not be particularly meaningful but tracking your firm's performance

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against, say, four major competitors over a five-year period can provide a realistic view of the markets perception as to which firms are improving and which are falling back in any one area of practice. Similarly comparing revenue per lawyer over the same period can give an indication as to the pricing, efficiency and volume enjoyed by your competitors.

In my experience, general counsel will often be very open as to the share of their legal spend a firm receives, the other firms they use and why, and whether their in-house team will increase or decrease in size. This is crucial information. If you do not understand the pressures your clients are facing and how they will affect their use of outside counsel then your so-called strategy is irrelevant. If you are doing all the client’s work in one particular category there may be limited scope to grow, indeed you will need to protect your relationship against new entrants. Cross-selling may or may not be viable depending upon the client’s perception as to your capability or their satisfaction with the incumbent lawyers. Conversely if you are only doing 10% of the work in a particular area, an effectively focused effort could raise that share to 25% over a few years. If you are looking to expand a particular area of work it may be appropriate to commission some market research in order to understand the depth and breadth of the market, the barriers to entry and the level of satisfaction with the lawyers currently operating in that area.

In addition to a realistic review of the outside factors affecting the firm it is necessary to take a hard look at the firm’s current practices and offices. All too often the firm’s ‘strategy’ is drafted so as not to offend anyone: all the offices and practice groups are said to be ‘strategic priorities’. In truth, some parts of the firm will be capable of quicker and more profitable growth than others. Some areas will be able to attract lateral

hires, others will not. Some areas will be inherently more profitable than others. To pretend otherwise is to abdicate responsibility for the firm’s future. This is not to suggest that there must be wholesale closures of practice groups or offices. It is important to understand what factors affect performance and how they can be addressed. For example, in a price sensitive area of work it will be necessary to consider how the intelligent use of IT and a different gearing structure can be used to provide a better and more cost effective service to the client whilst achieving an acceptable financial return to the firm. One size rarely fits all, so one approach for one area will not necessarily be appropriate to other parts of the firm.

Any strategic review must also consider the leadership of each practice group or office. Is the leader the best person to take the business forward, or was leadership given using the “Buggins turn” principle? It may not be necessary or desirable to replace the leader but training and clear objectives may be necessary to ensure that the role is properly performed.

In relation to any financial targets in a strategy paper it is necessary to be realistic. Again an historical analysis covering the revenue, profitability, margin, profit per equity partner, revenue per lawyer and profit per lawyer of your firm as against its key competitors will be useful if taken over, say, a five-year period. Admittedly the current league table figures are at best an approximation of the real figures but as more firms convert to LLP status increasingly reliable figures will become available. This analysis will enable a firm to determine with a degree of certainty who its peer group firms are. When I question firms on their peer group I am often surprised that they still consider firms to be their peers despite the fact that in both market reputation and profitability terms these other firms have left them

behind and there is now massive distance between them. This reality check is essential if the strategy is to be meaningful or achievable.

The last five years has seen great fragmentation of the UK legal market. Various tiers of firms are emerging, and after an initial period of flux these tiers will become more fixed. It will be easier for firms to be relegated from their tier than to gain promotion to the next tier. Only if firms are realistic as to their starting point, realistic as to the opportunities open to them, and ambitious yet realistic as to their goals, do they have a chance of maintaining and improving their position in the market.

In a competitive environment for law firms, woolly wish lists and unsupported business projections will not do. A properly prepared strategic review based on thorough research of a range of internal and external factors is a sound foundation on which to build. But it is only a tool. The firm’s leadership then has to be prepared to implement it. ■