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THE LAWYER

Expand with care to avoid a collapse

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As the legal market recovers from a bruising period, many firms are considering either opening new offices in the UK or internationally or developing their practice areas.

Having been through a period of relatively subdued growth and considerable political and economic uncertainty, firms should have recognised that investment pots for new initiatives are limited and have to be spent wisely. It is no longer acceptable to open a new office or develop a new practice area just because a competitor has done so (although competitor action is a key influence in such a decision).

Instead, firms need to be clear about what they hope to achieve, whether it is consistent with their strategy, how much it will cost and what the return on the investment will be.

Insofar as the office or practice is designed to attract new clients or retain existing ones, then detailed discussions with these clients are essential, not only as part of the due diligence process but also to ascertain whether the client will really use you and what their precise requirements are. Very few clients will commit to supply work to a yet unbuilt capability but they can provide useful input as to their needs and selection criteria.

Thought also needs to be given to how a new office or practice will be developed. Will a merger or team hire be needed to achieve the necessary critical mass quickly? Alternatively, will individual hires or the relocation or rebadging of existing lawyers provide sufficient depth and credibility? The key question to ask is: compared to the competitors and client expectations, will the capability we are presenting to the market be credible and competitive and, if not immediately, then over what timeframe and at what cost?

Inevitably if a firm is moving lawyers into a new office or practice, this has a significant opportunity cost as the lawyers would have been generating fees in their original area. Firms often select lawyers to relocate or rebadge because they have surplus capacity and a lower opportunity cost. This is often an expensive mistake. Lawyers who cannot hack it in their home market or practice area are generally unlikely to thrive elsewhere.

Calculate the cost

When considering whether to open a new office or develop a practice area, the investment in cash and management time (including IT, business development, accounts etc) need to be assessed. New operations, especially in new locations, consume management time and divert attention from projects which, although less exciting, could generate a significantly higher return.

Opening a new office or developing a new or existing practice area can demonstrate energy, momentum and success but these outcomes are not guaranteed. Many recent US and UK law firm failures are attributable in part to over-expansion or a poorly planned and badly implemented expansion strategy. Firms need to be brutally realistic as to the success or otherwise of their expansion plans and be prepared to take measured remedial action when necessary.

Too often we are consulted by firms still “investing” in an office or initiative many years after the original business plan said they would be reaping profits. This is not investment, it is just losing money.

A dispassionate plan

Firms need a credible plan that shows how the initiative is performing on a standalone basis and as an integrated part of the firm (as it may be generating work elsewhere or be helping to protect and enhance client relationships).

Law firms traditionally find it difficult to close an office or to downsize a practice area, but there is no need to be so defensive. Some initiatives work, some do not. Only by conducting a thorough and dispassionate review can a firm make the right decision.

Failing offices and practices consume disproportionate amounts of management time and investment, diverting resources from more promising opportunities. This risks a level of underperformance which threatens the long-term success of the firm.

New offices and practice areas, can create a virtuous circle of better work, better clients and better profitability, but if the initiatives are not properly managed and regularly reviewed they can create a vicious circle of stagnation and decline.

This is not to suggest that the status quo is the safest option, but a law firm, like any business, needs to look at the areas that justify investment, those that do not and those that should go.