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Getting the Practice Mix Right

As firms seek to gain competitive advantage in a persistently flat market, allocating scarce resources is an increasingly important component of strategic decision-making. Successful firms are constantly tweaking their practice mix and adjusting investment dollars to maximize benefit to the firm as a whole. Taking a strategic approach to practice mix can help firms avoid costly mistakes.

While many leaders recognize the importance of practice mix, they often lack the tools necessary to make strategic decisions about which practices the firm should enter or exit. The dilemma facing law firms is not unlike the questions that large companies face as they evaluate which businesses, products, and markets to focus corporate resources on. Strategy experts have long sought to understand the right portfolio of businesses that a company should have under the same corporate umbrella. Their insights provide some good food for thought for law firms as well.

Drawing from the corporate strategy playbook, there are three key questions every law firm leader should ask when evaluating the strategic fit of an individual practice. While these questions seem simple on the surface, a clear and unbiased search for answers can reveal important insights about a firm’s practice mix and ultimately its competitive advantage in the market.

1. Does the practice group add value to the overall firm, above and beyond the stand-alone revenue?

All practices add some dollar amount of revenue to the firm, but when we examine this revenue from a strategic perspective, the bar is higher. A practice group adds value if other practices grow due to its presence. The most obvious way to add value is to provide meaningful opportunities to cross-market services between the practice group and other practices in the firm. However, for many firms, these opportunities are more theoretical constructs than real revenue producers. But regardless, to answer this first question, many firms need to start with a critical evaluation of clients who are now or can in the future do more business with the firm due to the presence of a particular practice group.

Cross-selling is not the only way a practice group adds value, however. Another approach to answering this question is a more general inquiry into whether the practice group improves the overall competitive advantage of the firm. A top notch Supreme Court practice, for example, may provide reputational spillover benefits to other groups, even if there are no explicit cross marketing opportunities. Alternatively, a counter-cyclical or anti-cyclical practice may balance out other practices that are subject to the whims of the overall market. By contrast, a practice with a dramatically different value position may be financially profitable, but misaligned with a firm’s strategy and dilutive to the firm’s market position.

2. Does each practice group add more value than cost?

This question can be as straight-forward as simple economics. Sometimes a particular practice is inappropriate for the firm’s cost basis. A practice that works largely on contingency can be expensive for firms that are not accustomed to dealing with the uneven revenue flows that result from these practices. Aligning partner compensation can be a particular challenge in these practices. Another issue is low margin practices that exist alongside very high margin practices. Some firms are reluctant to examine the profitability of practices on a fully loaded basis for fear of upsetting partners and causing resentment. However, a full picture of the profit and loss statement for each practice is an important component of strategic decision-making.

While many times this question is one of economics, there may be other, less quantifiable types of costs that are more important than the practice's financial performance. One example is conflicts. Perhaps the practice creates conflicts with other practices in the firm, requiring the firm to turn down potentially lucrative clients in favor of a less profitable practice. Or, less obviously, perhaps there is a group of lawyers in a practice who do not get along well with others in the partnership, causing psychic costs to the firm that go beyond a straight economic analysis. The lesson from this question is simple: Be sure that any loss leaders in your firm are there by design, not by happenstance.

3. Is the practice group most valuable with our firm versus some other firm or as a stand-alone practice?

This question turns the value question around and asks how the firm benefits the practice. Why can a particular practice better serve its clients from your firm rather than the firm down the street? The answers to this question can center around a number of issues like target markets, client lifecycle, complementary practices, and even culture and firm values. (And by the way, this isn't a bad question to ask about potential lateral hires as well.)

Answering this question is perhaps the most difficult of the three because it requires a very deep and honest understanding of the firm's competitive advantage. Where can the firm as a whole make the most impact and how do the various practices in the firm support that approach? What is it about the firm's "special sauce" that enables particular practices to thrive?

Taken together, these three questions force firm leaders to determine whether there is a meaningful reason for the various practice groups in the firm to be together. Not only is this important from a strategic perspective, but the more definitively a firm can answer these questions, the more likely it is that lawyers within the firm will understand their own unique role and why they are more valuable with their current firm than going to a new firm. A strategic perspective on practice mix can thus not only ensure the whole is greater than the sum of its parts, it can also help the firm insulate itself from the lure of the lateral market. Optimizing the fit between the firm's platform and its practice mix is a key aspect of having a high performing firm.

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