



The Growth Imperative

Law firms today are keenly focused on growth. As demonstrated by the rising number of firms reporting over \$1 billion in gross revenue or by record breaking merger activity, we see a heightened focus on growth strategies among our law firm clients. This begs the question: why are law firms so preoccupied with growth? And what are the growth strategies under consideration?

Today's Growth Mindset

In the 1990s and early 2000s, many law firms experimented with ill-defined growth strategies, leading to the addition of lawyers and offices which often lacked connectedness to the firm's core practice strengths, clients, or geographies. In many instances, these firms later discovered that this growth had diluted their market position and economics, and years of clean-up ensued, as firms sought to close offices or divest practices which did not fit within the firm's targeted market position. This ultimately led to a recognition among law firms that a 'growth for growth's sake' mindset is both non-strategic and potentially harmful to the firm.

In today's market, the preoccupation with growth tends to be much more strategic in nature. Many firms pursuing growth are not pursuing growth for the sake of it. Instead, we see firms considering a variety of growth strategies driven by a desire to combat increased competitive pressure from other firms, to protect or expand client relationships, to build depth of expertise in specific practices or industries, to respond to emerging changes in technology and innovation in legal service delivery, to gain scale, or to enhance financial performance. For many firms, the rationale for growth is also born out of a recognition that in a rapidly changing legal industry, simply sitting still and trying to hold one's ground is likely to lead to falling behind.

Range of Growth Strategies

Naturally, different firms are pursuing different growth objectives. The growth path chosen by a firm is typically driven by their current position in the market and their partnership's goals for a desired future position. In pursuing growth, there are a variety of paths firms consider, and some firms employ multiple growth approaches simultaneously.

Growth in Profitability

For a number of firms, growth is not about adding lawyers, practices or offices. Instead, these firms seek growth in client relationships and economics which will contribute to longer term growth in profitability. Examples of such firms can be seen in first tier legal markets, where high performing 'boutiques' content with their current size and geographic platform are not looking to add a significant number of lawyers or to move outside their current market. Instead these firms focus on sustaining their premium market position and reputation through growth in profitability. A number of these 'boutiques' are relatively focused in terms of practice areas or industry representations. Others are multi-service but typically under 300-500 lawyers in size. Given the strength of the legal markets in which these firms operate and the talent base and clients they have accumulated, geographic expansion and scale do not offer tremendous strategic advantages. For the time being, these firms find that maintaining their current platform, focusing on profit growth and pursuing higher end work offer the greatest competitive benefits.

Growth in Practice or Industry Differentiators

Numerous firms have adopted practice or industry-based differentiation strategies which aim to exploit the superior talent and market position in a high opportunity practice or industry, ultimately leading to broader firmwide market recognition and competitive positioning. To accomplish this strategy, firms typically seek to add lawyers in differentiator practices/industries to build depth or breadth in order to remain or become a market leader. In adding lawyers under a differentiation strategy, firms often use a lateral or merger strategy, or a combination of the two. Lateral hiring, while both risky and expensive, is often necessary, as laterals have the potential to bring specialized skill sets, existing client relationships, and market recognition. Merger or acquisition with the right firm can offer a less costly and more accretive method for growth, although merger targets within specific areas of practice or industry focus can be hard to find or may not be interested in joining a larger firm.

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Nonetheless, in spite of these challenges, firms often find that differentiator-based growth strategies help create strategic focus and, when achieved, materially raise the firm's overall profile and market position.

Geographic Market Entry or Expansion

While firms have pursued geographic growth for many years, the rationale for geographic growth today is much more directly tied to the firm's client base and practice mix than in years past. The highly speculative, "if you build it, they will come..." market entry strategies of years ago have largely failed firms, often resulting in unprofitable and unstable offices in highly competitive geographies. As a result, more firms today seek to understand the risks and costs associated with entering new markets, particularly markets offering access to sizeable clients and high demand for services. Firms also increasingly understand that new market entry or expansion is most effective when pursuing specific opportunities to expand services to existing firm clients or to add talent/expertise in high performance or differentiator practices. With these goals and requirements in mind, geographic growth is often achieved through partner relocations, lateral hiring, or merger or some combination thereof. The goal of any of these approaches is to create lasting ties to the firm's client base and practice mix which serve as a form of glue in binding the office to the firm.

Organic Growth

Fewer firms today are successfully employing organic growth as a standalone strategy. Due to lower retention rates and more frequent movement of lawyers between firms, law firms have found that organic growth by itself can be a very slow-going and often unsuccessful path to meaningfully growing the firm's partnership and revenue base in today's market. It is not atypical for a firm to grow and develop one young lawyer over the course of 10-15 years into a capable equity partner, only to find that they have lost 3-4 (or more) of his/her peers along the way. Particularly when coupled with the baby boomer retirements, net organic growth has remained relatively flat for most firms over the past 8-10 years.

Platform and Scale

Finally, and perhaps most interestingly, a growing number of firms today are focused on how to best expand their regional, national or global platform and to create additional size and scale. What once may have been considered a 'growth for growth's sake' strategy has morphed into a legitimate question of whether a broader and larger client base, practice mix, talent base, geographic platform, and size and scale can offer superior competitive positioning in the market. For numerous mid-market regional firms, this may be a defensive strategy, as national firms continue to invade their markets and lure away their partners and clients. For national and global firms, this type of growth may be critical to retaining key clients seeking national or cross-border representations or higher profile firm brands for major matters. For other firms, material growth in platform and size offers the opportunity to create economies of scale, and leverage costly investments in technology, innovation, and infrastructure to better service clients and spread out overhead. This growth mindset is perhaps best captured by a quote from Jamie Dimon, President and CEO of JPMorgan Chase, "Companies that grow for the sake of growth or that expand into areas outside their core business strategy often stumble. On the other hand, companies that build scale for the benefit of their customers and shareholders more often succeed over time." Those firms seeking to grow their platform and scale in order to better serve clients appear to be gaining market share, enhancing profits, and increasingly edging out competitors.

Clearly, growth presents opportunities for law firms. Growth also presents challenges and risks. Growth can be expensive – both in time and financial resources. In addition, growth involves change, which if not managed correctly can create partner discomfort or worse, instability. That being said, for many law firms facing competitive pressure in today's market, the advantages of growth outweigh the potential downsides. Growth offers the opportunity to preserve or improve competitiveness, economics and market position in a rapidly evolving industry. For many firms today, the question is not whether law firms should be pursuing growth. Growth, in one form or another, is a strategic imperative. The question is how firms will achieve it.

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