



Gearing Up for Growth

As we enter the second quarter of 2021, the picture looks fairly rosy for many law firms. Preliminary signs point to the potential for another growth year in terms of demand across a number of practice areas. Signs of increased demand, combined with strong 2020 financial performance, indicate that some firms are poised for material revenue and profit growth and the potential to leapfrog competitors over the coming years.

In order to harness these opportunities, a number of firms are engaging in strategic planning and growth assessments. They are analyzing the opportunities being created in this disruptive environment and identifying actions to capitalize on those opportunities. These strategies run the gamut from restructuring staffing models, to major investments in technology, to scale based growth via merger or groups, and in particular, to more concerted and aggressive practice and industry-focused growth and differentiation efforts.

For firms seeking to take advantage of the current growth environment, investments in strategic planning and practice and industry focused growth efforts offer the potential to gain market share and win out over competitors. However, moving beyond potential requires firms to engage in difficult discussions around strategic choice and prioritization, and to follow through with disciplined implementation.

Strategic Choice and Prioritization

Like most other businesses, law firms face limits on the availability of internal resources. Compensation dollars, management time, the marketing department's attention, and energy spent on lateral recruiting all represent scarce resources. And because such resources are limited, law firms must choose: which practices, clients, industries, geographic markets, or other opportunities represent the best strategic investments? By identifying areas which offer the greatest market opportunity and which best leverage the firm's existing strengths, firms define when they will say "yes". Areas not identified for strategic focus are more likely to hear "no" when requesting additional resources.

For law firms, identifying practice or industry areas for strategic focus and prioritization goes well beyond a basic supply and demand analysis applicable to many other industries. Yes, firms do need to evaluate current and likely future demand for services, the supply of available lawyers with the requisite expertise, both internally and externally and the difference between the two. But, in addition to supply-demand modeling, firms must also evaluate expertise depth, client relationships and access, and overall pricing and positioning implications. To identify practices or sectors for growth focus, we recommend that firms develop robust internal frameworks to measure opportunities and compare them to one another. Such frameworks tend to have some combination of the following factors:

Market Position: How well does the firm compete in this particular area? How does the market view this particular practice or industry concentration of the firm? How does its depth and breadth compare to those of other firms?

Market Opportunity: How attractive is the outlook for this particular practice or industry? Where is the practice in its demand curve? Will this type of work be in demand in the next five years? Does the firm have inroads into the clients that need this type of work?

Degree of Commoditization: Has the work in this area become a commodity? Are there a large number of undifferentiated competitors? Is there severe price pressure? Is competition in this area focusing increasingly on price?

Internal Effectiveness: How well is the practice or industry group managed, or is there a strong potential leader? How does it perform economically? Does it require a disproportionate level of resources and attention?

Link to Other Firm Services: Does the practice share clients with or drive clients to other practices? Are there

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interdependencies with other firm practices? How does the practice fit within the firm's array of services?

Link to Core Clients: Are a significant number of the firm's major clients being serviced by the practice? Are the types of clients serviced by the practice the same type the firm is targeting? Are the clients in the firm's core industries?

Successfully identifying the best opportunities for growth prioritization requires that firms compare how a particular practice or industry sector ranks on the above criteria relative to other areas. Considering one practice, industry, or geography in isolation fails to take into account the opportunity cost associated with that investment. What other areas could the firm invest in instead, and what would be the relative return?

Disciplined Implementation

Having identified the most promising areas for investment, firms must then begin the more difficult process of successfully implementing their strategy. As most leaders have experienced, implementation requires tremendous discipline, both in the planning and follow up stages:

Focus: Firms that try to take on too much too quickly often get overwhelmed and accomplish far less than they would have if they had taken a more focused approach to growth. Taking advantage of a growth market requires firms to focus on a small number of strategic initiatives on which they can realistically make material progress within a relatively short time period. This is often challenging in a partnership model, where the tendency is to attempt to placate a large number of partner stakeholders through a multitude of simultaneous growth initiatives.

Detailed Implementation Planning: Effectively implementing plans to harness a growth market also require detailed implementation plans, meaning identifying specific actions, responsible individuals, deadlines, measurement tools, and follow-up required to achieve each of the firm's strategies. Implementation plans often take the form of detailed charts which map the course of action for firm leaders over a 24-36 month time period. Achieving a level of detail in these plans provides for a tangible and measurable guide by which both the firm and its leaders can assess progress in implementation over time. In developing the plan, it is important to establish a realistic timetable for key steps and to take into account the bandwidth of the firm to accomplish those steps.

Measurement and Accountability: If the plan is sufficiently concrete, the firm should be able to develop a set of quantitative and qualitative metrics around each growth goal. These metrics often identify revenue growth targets, performance goals, client satisfaction ratings, dollars invested, etc. By following up and assessing progress in implementation at regular intervals (at least quarterly), firms can more effectively determine whether current implementation activities and assignments are on track and are working, or whether a different approach is needed. Such assessments are crucial in ensuring that action is taken and progress is made on growth strategy execution.

Alignment and Communication: Successful implementation also requires alignment of the firm's partner compensation system, performance management approach, and other related practice management structures with the firm's chosen strategy. The most common (and perhaps critical) example of a structure necessitating alignment is that of partner compensation. Very often firms adopt growth plans which require partner collaboration and teamwork in order to achieve success, yet fail to modify the partner compensation system to encourage and recognize such activities.

The current environment offers significant opportunities for law firms. Gearing up for growth requires a combination of strategic choice and prioritization, and disciplined execution. Firms that manage to get this right will harness growth opportunities and emerge ahead of competitors. Is your firm ready?

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