Growth Strategies for the Modern Law Firm

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Executive summary

It is logical that any business that is not growing at least in line with market conditions and the competition cannot hope to survive, let alone thrive. Since the recession of 2008/2009, law firms that once saw growth as easy and inevitable are finding that the only way to achieve this is now to wrest market share from the competition. There is no one "right" way to do this; some firms have opted for a determined policy of buying market share and recruiting lateral talent, while others rely on more organic growth. With contributions from a wide range of thought leaders and consultants, this book provides advice on the growth options available, and shares practical guidance designed to help firm leaders to formulate and implement a profitable, sustainable growth strategy.

The book is divided into two sections: the first provides practical insight and guidance; and the second comprises case studies from a range of law firms from the US and UK who share their own secrets to successful, durable growth.

As the first contributor, Andrew Hedley of Hedley Consulting, points out, "If you're not growing you're going backwards". Firms need to grow not just to cope with rising costs and downward pressure on price, but also to enable them to invest in staff, resources, and service delivery. The opening chapter in this book discusses the imperative to grow and various strategies to do so, including advice on market positioning, client retention, pricing strategy, and culture and performance management.

How much do your top clients contribute to the success of your firm? When it comes to your key assets they can be an invaluable source of growth, and conversely their loss can be devastating to the bottom line. In Chapter 2, Robert Pay, business development director at Alvarez & Marsal, describes how a key relationship management program can help firms to consistently retain and grow those clients and referral sources that are the most important to the health of your business. This chapter includes a questionnaire to test your readiness and suitability for a key relationship program, advice on how to overcome typical barriers you may encounter, and a how-to guide to assembling the teams necessary to design and manage your key relationship plan.

When it comes to determining a strategic direction to take, many firm leaders find themselves with too many options, and too many interested parties. When so many voices and opinions must be taken into account, who should you listen to? The answer, according to Susan Pettit, founder and managing director of Client Central, is *your clients*. After all, who knows better than the client just how they would define "value", or what they are looking for beyond practical legal advice? This chapter describes how to implement a client listening program to better serve clients, enable stronger relationships, and create a platform for differentiation and growth.

The arguments for promoting a culture of cross-selling within a firm are obvious, but equally obvious are the challenges of selling those arguments to a wider partnership who may be deeply protective (or even possessive) of relationships that have been carefully nurtured over the years. Expert advice is provided from renowned business development coach David H. Freeman, who describes in the next chapter how to drive cross-selling from the top and make it a cornerstone of your growth strategy and of your firm's culture.

Many firms are adopting a proactive strategy of growth through lateral hires. But while bringing in a fee earner with an existing book of business may seem like a quick win, a startling number of lateral moves fail to see the expected benefits. In the next chapter, the chief marketing officer of Freeborn & Peters LLP, Ian Turvill, describes the critical success factors that can help your firm to get it right.

While law firms strive to extract more work from their clients, general counsel are under greater pressure to keep more work in house and to prove their value through visible revenue growth. In the final chapter, Deepa Tharmaraj, legal director at Dell, provides the in-house perspective on innovation and growth in a lean in-house legal department.

Part two of this book comprises case studies from firms who describe their own (proven) strategies for growing revenue and market share. In the first of these, the chief marketing and business development officer at Stinson Leonard Street, Jill Weber, describes how the firm's "Fast Forward" program provides attorneys with a systematic approach to business development, helping them to build larger and more durable practices.

Following on from this, in the second case study – from the UK's largest litigation-only firm, Stewarts Law – managing partner and co-founder John Cahill describes the firm's laser-like focus on complex, high-value matters which serves as a key differentiator, and has led to considerable organic growth and outstanding PEP.

In the final case study, from Levenfeld Pearlstein LLC, executive director Angela Hickey describes how the firm's holistic approach to improving client experience drives client retention, employee satisfaction, and growth.

Part 1:
Insight and Practice

Chapter 1:
Aligning strategy, culture, and performance management with a growth agenda

By Andrew Hedley, director of Hedley Consulting

Sustainable revenue growth is central to the longer term success of any firm. Strategies which underpin such growth, a client-centric culture that recognizes its importance, and an approach to performance management which encourages and rewards the behaviors that deliver growth are the triumvirate which form our subject matter. It is by aligning all three that firms provide the best opportunity for enduring success.

The market remains challenging for many; while activity is certainly on the rise, pressure on price is unabated. In simple terms, the savvy client wants the work done better, faster, and cheaper than it was last year. Firms are having to run faster to stand still. For the first time ever in the legal sector, increased activity on the clock is not translating to commensurate revenue growth on the top line.

Those businesses which can adapt to this new paradigm, by enhancing both their revenue generation and operating models, may be able to preserve profit but others will find themselves simply running faster to stand still.

The growth imperative

Growth is fundamental to longer term, sustainable success for any business in a competitive environment. "If you're not growing you're going backwards" is a phrase often heard which, from a business development perspective, carries much weight in a world where relative competitive strength is key to securing, developing, and retaining both clients and people.

Incremental cost-base rises are inevitable, even in a low-inflation environment, and in the absence of matching revenue growth can only be paid for through reduced profit. Moreover, in order to compete effectively, firms need to do much more than simply repair and renew their infrastructures – they need to invest in people, technology, premises, and infrastructure. This can only be done in a way which is not profit-eroding through a healthy and rising top line.

Looked at through the eyes of the client, a firm which is growing can be seen to offer many advantages both practically and psychologically. Growth will often be associated with increased resources, wider practice lines, increased geographic footprint, and an enhanced approach to service. All of these factors offer tangible benefits to clients, whether by servicing existing work better or providing the potential to support future expansion. At an emotional level, clients enjoy the halo effect of being associated with a successful firm. It reinforces that they have made a good choice and that their lawyers have a robust position within the legal services market.

Similarly, higher growth will be associated with increased opportunities for staff, and having a rising star brand on one's CV is a positive outcome. In a market in which the war for talent is intense, being an attractive employer brand, one seen to be going places, has a material impact on the nature of the candidates attracted to the firm. This begets a virtuous circle – better people, providing enhanced service, leading to more satisfied clients more inclined to place more work with the firm, so driving growth further.

The right sort of growth also drives profit per equity partner ("PEP") in a way which is sustainable. In the low growth period that followed the great recession, we saw firms reducing partner numbers in order to preserve PEP at acceptable levels. The nature of any law firm, with very high fixed costs, means that profit is very highly leveraged by top line growth. Once costs are covered any incremental increase in revenue falls straight to the bottom line, significantly increasing the overall profit pool. The converse is also true; until those high fixed costs are covered no profit flows at all.

Strategic overview – The nature of growth

Simply to say, "We need to grow the top line" is misleading. It is important to understand underlying profit drivers and to differentiate between organic and inorganic growth. This will ensure that the quality of any revenue increase is understood, and that different ways of working are considered strategically.

At its core, strategy is centered on the creation of a sustainable competitive advantage. The way in which a business goes about achieving this will vary from firm to firm but there are three key drivers of profitable growth that should be borne in mind.

To grow its top line a firm must either sell more "units" of legal services or be able to charge more per unit (of course, combining the two options is an additional third route). There are, quite simply, no other options.

These routes will all necessarily result in growth and profit.

Looking at the volume of business sold, a firm can encourage existing clients to buy more of its services, seek out clients who are not users of legal services and convert them, or acquire new business by acquiring the work currently done by other firms, i.e. implement strategies to grow the client base by acquiring other firm's clients. This can be achieved from within its existing resources by winning pitches and converting prospective clients or by "acquiring" clients through inorganic means, which is discussed in more detail below.

Assuming a steady state pricing and operating model, additional profit will flow when the cost of processing a "unit" diminishes (through a better utilization of overhead) and occasionally will be reduced as additional productive capacity needs to be created (hiring more staff, better systems, etc.) in order to service the work that has been generated.

In seeking growth, firms need to clear about three separate but related issues:

1. Is the growth organic or inorganic?
2. Maintaining an eye to quality as well as quantity; and
3. Are we seeking to run the same race faster or to run a different race?

Organic or inorganic?

At its most fundamental, growth can be organic or inorganic.

Organic growth refers to growth that is delivered by the business as it stands, without any M&A activity or determined program of lateral hiring. It will be accompanied by an increase in productivity, as outlined above, and so the delivery of enhanced profits. The same asset base will process more revenue. Revenue per partner will rise without the need to cull partners. From this rise in revenue a leveraged increase in profit will be enjoyed.

Inorganic growth refers to a range of activity from outright M&A, through team moves to a strategy founded in multiple lateral hires. With varying degrees of certainty, they provide the opportunity to deliver step change uplifts in turnover but do not come without challenges of their own. These will often relate to culture, integration, and the discovery (in anything but a full merger) that the portability of a client base is not so straightforward as one might assume. Clients are inherently "sticky" to their incumbent firms and, where those firms have implemented sensible policies to institutionalize relationships, can be disinclined to move their business elsewhere.

Such growth can also serve to better sweat the firm's pre-existing assets and so deliver excellent marginal profitability. Adding a lateral partner into an office in which a desk, IT infrastructure, and support services already exist means that the marginal additional overhead is negligible.

An eye to quality as well as quantity

In evaluating the business sustainability of the growth that has been achieved it is important to look at productivity factors