

PETER SCOTT CONSULTING

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A perfect storm? Plan ahead now – before it is too late

Given some of the challenges now facing the legal profession, are law firms carrying out sufficient forward planning to secure their futures? Or are they just reacting, often too late, to circumstances?

Jack Welch once said “**Change before you have to**” and that should be one of the mantras by which law firms take forward their businesses.

During the past few years pressures on law firms have never been greater, but we now have the prospect of even more changes being brought about which are likely to affect the very livelihoods of many firms. How many firms are planning ahead to ensure they can successfully adapt to a different world? Lack of awareness as to what is happening around them, as well as complacency, can be two of the greatest dangers to law firms under current conditions.

What will it take to spur law firms into seriously planning for their futures if they are to succeed in increasingly competitive markets?

- Changed markets which mean their existing services will no longer be required or be profitable?
- New competitors with ‘deep pockets’ and ambitions to match, entering their markets?
- Further downturns in work in shrinking markets?
- Clients lost to more competitive firms?
- The loss of the best partners and staff to firms regarded as having better futures?
- Declining revenues and profitability?
- Further cash calls to support poor financial performance and management?
- An inability to manage risk and compliance?

Moreover, instead of being unprepared, law firms also need to be planning now how to take advantage of the likely **opportunities** which will emerge as

- clients rethink their own plans for the future;

- new markets emerge;
- technology continues to develop to enable those firms who can take advantage of it to become even more competitive;
- globalisation gathers pace;
- commoditisation of legal work continues;

Given such drivers of change, law firms will need to keep ever closer to their clients and markets and constantly review strategic thinking. There is a constant need for law firms to re-invent themselves and the ways in which they look after their clients, if they are to successfully compete.

“Listen to your clients or else...” should be a survival imperative for law firms as the economy possibly moves towards a double dip recession and firms face fiercely competitive markets in which clients will increasingly vote with their feet.

Firms need to regularly and in a methodical manner listen to their clients regarding how well they are looking after them, the services clients are going to want from them in the future, how clients will require those services to be delivered and what prices they will be prepared to pay?

Firms will also need to look at their existing client bases to help them decide which clients they will want to work with in the future, by asking questions such as:

Which are our most profitable clients?

Is every client we act for profitable?

An analysis of the top and bottom 10% of clients by billings is likely to indicate where a firm is making or losing money.

In the same way, a firm is likely to need to look critically at every type of work it currently carries out and consider whether there will be a profitable market for that work in the future.

Is all the work we do currently profitable?

If not, are there ways to make it profitable?

If not, then why are we continuing to do this work?

Will there be a profitable market for this work in the longer term?

Detailed financial analysis will help a firm to arrive at answers to such questions and to enable decisions based on sound knowledge to be made regarding its future.

Here are some more questions which may be usefully asked.

What kind of law firm will we need to become if we are to successfully compete in the future, in the light of:

- External perceptions of the firm as shown by client feedback?
- Our current market positioning and competitors?
- Our client base / areas of expertise?
- The most significant threats / risks faced by our firm?
- The ambitions / hunger / passion of our partners to build the firm?

In seeking to answer such questions, it is likely to be important to focus on matters such as:

- What should our people be doing more of, less of, better or differently?
- What is realistic and achievable within given timescales and using available resources?
- And if resources are limited or scarce (as they usually are), is it realistic to believe that we will be able to achieve these objectives on its own?

Providing the resources necessary for these purposes can require large investment, both in terms of effort, organisation, people and finance. To achieve required levels of critical mass needed to begin to service clients more effectively and profitably, to manage risk and compliance to acceptable levels and to provide all the other support infrastructure a modern law firm needs, is likely to require many firms make a 'quantum leap'. Organic growth by itself is, for many, unlikely to provide that quantum leap.

This is likely to be the case especially during a period of economic restraint, tight cash flow and falling profits. And even if firms attempt to grow organically to meet their challenges, their rivals may be doing so at an even faster rate and become better placed to gain competitive advantage over them.

Feedback from clients may often help to highlight a lack of resource which is holding back a firm's progress. For example, while many firms will have a certain breadth of

expertise, there are likely to be critical gaps in expertise which will need to be plugged if in the future they are to be able to provide clients with the services they require. Of even greater concern should be a *lack of depth of expertise*, which again feedback from clients will often highlight.

If a firm concludes that, if it is to successfully compete in tomorrow's challenging legal markets, it will need to grow by building its people and financial resource, but it cannot see how it can do this alone, then consolidation in some way with others is likely to be a route to seriously consider.

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