

# Growth Strategies for the Smaller Practice



This article discusses how the adoption of effective business strategies and planning can help smaller professional practices to grow and flourish, despite the absence of the infrastructure that larger firms can depend on.

In the early 1970s, a young American finished his studies at Cornell University's architecture school in New York and began professional training with several traditional US firms (such as Skidmore). While training he socialised with a colourful artist, Andy Warhol, and ended up decorating his home. As a result, when Peter Marino started his own practice in 1978, he managed to get mandates for the design of a number of celebrity homes (including Yves Saint Laurent and Fiat chairman Gianni Agnelli). However, he reportedly didn't know who Bernard Arnault was (one of the richest men in the world and owner of luxury goods manufacturer LVMH) when Arnault called with an opportunity that would change Marino's career forever. It turned him into one of the world's leading designers of luxury boutiques and shops. His retail clients in Japan, Hong Kong and Europe have since reported vast increases in earnings as a result of his designs; earning him, in turn, vast sums.

In the 1950s, a young man in London's war-ravaged and destitute East End left school and decided to enter what he regarded as an interesting profession: hairdressing. He worked very hard and, realising that a new generation of youngsters wanted to put drab times behind them, invented a glamorous new cut. He opened his own practice in 1963, teaming up with hip young fashion designers like Mary Quant and insisting that his employees work to a much higher standard. Now largely retired, the multi-millionaire Vidal Sassoon lives a celebrity lifestyle in California.

This story of first-rate practitioners building reputations that gross them high earning fees is told again and again in profession after profession, law included. Yet it is normally the larger networks that are able to thoroughly investigate the reasons for success or have the luxury of testing the relevance of management techniques to their firms.

Single practitioners or smaller boutiques rarely have the time to investigate or adapt them, particularly when they are first venturing out. They are too busy building their business, serving clients and, often, cutting prices.

Are there, though, strategy principles which are likely to help the small firm? What are the common experiences or insights across the different professions which might help the single lawyer to avoid mistakes? What is it that makes some practitioners and small practices enormously wealthy, when others are not? Can the success of others highlight sensible approaches which can launch ambitious legal professionals in Singapore? Why shouldn't one of today's Singapore graduates be the future equivalent of Peter Marino or Vidal Sassoon in the international legal profession?

## Getting Started

When first starting out there is a wide range of different things for the new practitioner to do and consider. If they are not careful, these competing demands on their time or failure to make the right decisions from the outset can damage their ability to build high margin practices, like those of Peter Marino and Vidal Sassoon, in the future.

Are they to buy a small practice that is already up and running with an established clientele? If so, how do they understand the health of that business? How can they ensure it is a good buy? Are the financials reliable? If it is a successful practice, will they be able to maintain the success? Why is the current owner selling (if to move to new premises nearby, are they likely to take clients with them)? If the practice is run down, how can they market it to increase its potential? What will they do to grow revenues and attract new clients? And will the business sustain

the extra costs of taking the actions to make such improvements? They need to think through all these issues, creating a realistic business plan.

The first major task is to launch the practice. If the aim is to quickly gain volume, then a memorable launch is needed and, to achieve impact, it should be supported by some price discounts or free trials in the first few months of trading. This might comprise an announcement to all possible contacts, followed by an invitation to a 'launch' party. Such an event, perhaps associated with interviews with local press, will rest in the memory of the audience and yield referrals as the latent business reputation grows. The newcomer might also work in association with a network of other independent professionals (a distribution strategy) in order to feed each other work.

However, those single practitioners (whether consumer or business focussed) wishing to focus on margin rather than volume should consider a totally different approach: the 'guru strategy'. The aim here is to build a personal reputation or even fame, like Marino, which will generate strong demand for an individual's expertise. This is primarily about pricing. The practitioner must generate sufficient demand to create a strong pipeline of high value work so that they never have to compromise their day rate. Successfully and carefully done, this strategy yields high returns. (One guru in legal services currently charges US\$18,000 a day).

The potential guru must have first-rate technical knowledge, good communication abilities and excellent advisory skills, so they are often experienced people setting out on their own. The launch of a guru should be 'soft', aimed at building demand and reputation. They must be prepared for the long haul and take the time to build

a reputation by speaking at conferences, publishing articles and networking. They must focus on quality of image, execution and client care. Some even offer a 'no question, money back' guarantee to new clients. Bravery, to live through cash flow problems, and generous investment in clients during these early days are important attributes of the high value practitioner.

The guru strategy works particularly well for sole practitioners. Suppose the industry average day rate in a particular professional field is US\$3,000. If 150 days are sold and 50 are allocated to marketing or administration, the individual will achieve annual revenue of US\$450,000. Yet a successful guru strategy will achieve a day rate which is much higher than average. If, for example, one practitioner invests in reputation enhancement programmes costing US\$50,000 a year, plus extra administrative support of US\$50,000, (to allow sold time to remain at 150 days), their day rate may be doubled in three years. Revenue of US\$900,000 per annum less US\$100,000 extra costs yields a healthy payback on this investment. In reality, though, some single practitioners are currently achieving day rates equivalent to between US\$10,000 and US\$25,000, depending on market and reputation; so, if they sell only 100 days, they are personally earning around US\$1million a year.

## Gaining Initial Growth

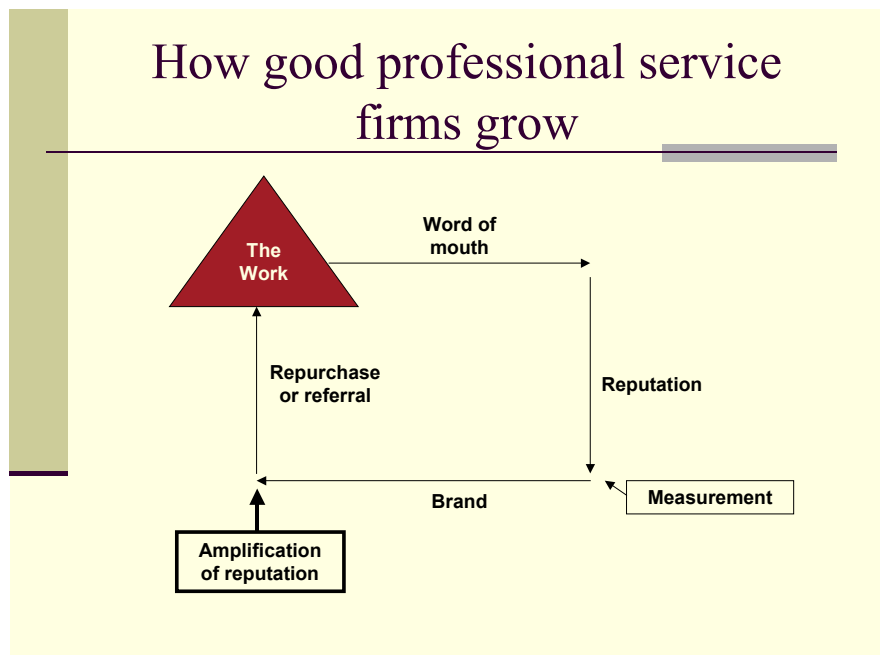
Once started, practice strategy is next focussed on initial growth. The practitioner needs to consider objectives such as: the intended annual revenue, achievable day rate, their primary offer, client penetration and intended visibility. In particular they need to decide on which clients they intend to focus. Some grow by obtaining work from one major client, others by a volume of small projects.

In the early days, growth often comes through referrals from other professionals. The practitioner must therefore decide with whom in their circle of contacts they wish to cooperate. Other single practitioners are often willing to refer potential work, as a service to their clients. The new entrant needs to handle these with care, executing work well and, over time, making referrals back.

They must make no attempt to steal the client. Negative reputation arising from such poor behaviour soon circulates in a pool of small independent providers, damaging the business.

An early and critical decision for any firm is how to enhance reputation. The practitioner might join relevant professional associations for networking, they may try to gain press coverage and might contribute articles to relevant publications. While the drive for this

comes from the practitioners themselves, they should consider using specialists. For instance, a publicist will find it relatively easy to gain placements for articles in relevant magazines (plus writing skills if needed) and speaking spots on conference platforms. They will also find it easier than the practitioner themselves to sell the single practitioner to these communications channels. Even a new practice will find it affordable to hire a young freelance PR person to gain useful profile for them.



## Cranking Up the Volume

Once underway, all firms go through 'inflection points'; moments in their life where their very future is in danger because of growth issues. Those professionals that get through these do so by building reputation enhancement into the centre of their business and creating outstanding margins as a result (as represented in the diagram). It is the unspoken approach of the whole firm. Although often intuitive and unarticulated, it is noticeable how often outstanding professionals in all disciplines set out to safeguard and grow the personal franchise which results from decades of good work.

It begins with clients' experience of the work. They are unsure when they approach a new professional because they have few means of assessing in advance the quality of the work they will

receive. They can only judge by certain clues (such as referrals from people they trust, the nature of the employees they meet or the impression created by the firm's public face). In addition, clients must surrender themselves to the practitioner's processes, increasing the client's discomfort. This distress increases further if the service received is personally significant (a business acquisition for example).

As a result, once a project is successfully completed, the client feels a sense of relief and will talk about the service to others. Positive (and negative) stories then begin to proliferate about the firm, creating a reputation. If that reputation is positive it will generate repeat business from the same client or referrals to different clients. If negative, the practitioner and the firm will end up as, what the Americans call, an 'ambulance chaser'; caught in a cycle of low fees,

poor clients and low earnings, as is the case with far too many practices in South East Asia. The two main drivers of future revenue growth are therefore the quality of work and the quality of client service. This creates a strong reputation, which eventually turns into a brand, and this, in turn, draws in more work.

This 'demand-pull', resulting from a good competitive reputation has two very powerful benefits. First, it keeps cost of sale low because the firm does not have to go out and get work. Second, it enables practices to keep prices high because, if clients come to them, practitioners can focus on diagnosing the need. Pricing becomes a consequence, not a focus, of discussion. So, reputation enhancement is how law firms grow and flourish, creating demand-pull, while keeping cost of sales low and prices high. In other words, it is not necessary to continually cut prices to grow a successful practice. Many famous firms have built high margin, enduring businesses, using reputation alone.

When, for example, PricewaterHouse Coopers' global advisory business decided to grow the anti-money

laundering advisory practice more aggressively. The three-year investment included international 'thought leadership' programmes, PR campaigns and visits to lead clients. The heart of it, though, was the selection of one partner who already had a reputation for good work in this field. He was systematically built into an international expert who wrote, presented and advised governments on the subject, in addition to building a healthy pipeline of work. Similarly, most leading professional service firms (from Deloitte and Mckinsey to head hunters like Russell Reynolds) have a community of lead partners who are able to gain the respect of board level leaders in a vertical sector. Many have a world-class reputation as thought leaders who are capable of stimulating new ideas and policy initiatives and altering the industry they address.

Lawyers can increase the earnings of their own practice in a similar way. They should invest in understanding the competitive reputation of their fledgling firm and their lead people. In the European mergers and acquisitions market, for instance, many pay hundreds of thousands of dollars for benchmark

surveys conducted regularly with buyers. The issue here is the competitive reputation in the minds of clients. When buying professional services how does the practice rate against clients' buying criteria? Clients may use different criteria based on more than technical expertise to assess performance. So, the programme ought to start with an open-minded audit of competitive reputation. Having understood that, the second step is to put in place mechanisms to amplify that natural reputation; such as PR-based initiatives that make both expertise and accomplishments visible.

This, in turn, creates fame within a highly targeted group. The cult of fame is a phenomenon of modern society. Actors, musicians, singers, politicians and even criminals are admired and followed for their recognition as much as for their particular skill. Some are even famous for little more than continual appearance in the media; famous for being famous. Alongside favourite TV shows and magazines, these celebrities become a familiar part of day-to-day life. They are intriguing, beguiling and incredibly valuable as a result. People feel a sense of warmth toward them and tend to

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follow their own package of celebrity, magazine, style and soap opera.

There is no doubt, as in the case of Peter Marino, that fame builds the wealth of first-rate professionals. Most leading British 'magic circle' law firms are, for example, centuries old. Yet one of them, international market leader Allen & Overy, is one of the world's leading, high quality legal practices despite being a relative youngster. What has been forgotten over time is that it was kick-started into professional stardom because one of the founding partners was at school (in the 1930s) with Britain's young king, and represented him when he abdicated for love and all the British establishment was against him.

Aspiration is an important aspect of the fame phenomenon. People mimic their favourite film stars or sports heroes because they want to be associated with the success represented by their lifestyles. This is often subliminal, but nevertheless, very powerful. A teenage boy dressing like soccer star David Beckham is associating with perceived success, and buys associated merchandise as a result (or gets his parents to buy it). Yet association with fame is also evident in business-to-business markets. The leader of a modestly sized business who wants a Big Four firm as their accountant, the director who stands on an awards platform with a well-known academic guru, the chief executive who basks in the glory of an acquisition led by one of the big merchant banks, and the US attorney known for high profile, celebrity cases, are all reflecting this phenomenon.

The creation, maintenance and exploitation of fame are, therefore, key components of the guru strategy and have generated wealth for individuals (whether single practitioners or part of a large firm).

Growth strategies for the 'niche' partnership, on the other hand, are very different. Their ability to earn above average earnings is based on some form of differentiation; which simply means they are different to competitors so clients have a clear choice. They cannot afford to become the same as other suppliers or fees will drop to industry average levels. Their difference might come from technical expertise, mix of skills, geographic knowledge, sector

knowledge or, more rarely, style of client service. Sometimes the difference is little more than perception in the clients' minds caused by reputation or fame. Their strategy must be to preserve at all costs their point of difference. They must understand the clients' values and perceptions, and then work to build on them; they must communicate their point of differentiation to the market in general. European patent firm, Gill Jennings & Every is a good example. It is nearly 100-years-old and dominates its field. However, the ability to earn good margins out of registrations is diminishing. The firm has therefore changed its service strategy to focus on advice. A recently completed analysis of its competitive reputation has delivered some of the best satisfaction scores I have seen in my 20-year career. Immediate access to responsive, high quality advice has become its *raison d'être*.

## Planning to Get Out

Sensible strategy also has a hand to play in the exit strategies of sole practitioners and can make a sizeable difference to the practitioner's personal take. Apart from simply closing the business, one of the exit strategies is to recruit a successor. Through contacts, networking or advertising, a qualified candidate with the right skills can be found. The best approach is a progressive handover taking, say, three years. This should include using marketing to build a pipeline of work for the new partner, handing over existing clients and managing expectations.

Ideally, a professional who intends to sell should consider this at the very start of the practice. Strategies put in place at the beginning will maximise returns when it comes time to sell. For instance, larger firms will normally be interested in a smaller firm for brand, reputation, intellectual capital, staff, or unique client relationships. At the start then, the practitioner should consider a number of these, then minor issues, such as the name of their firm. (An entity called after the names of the owners is harder to sell). As the firm grows, any unique approaches should be captured, perhaps in the shape of published books or training courses. This registers them clearly as the firm's intellectual property. Similarly, large clients should, if possible, be asked to sign 'frame agreements', or contracts committing them to volumes of

work. All will help create value in the firm, which is attractive to potential buyers.

At least two years before the intended sale, the practitioner should invest money in a PR specialist to build publicity for the firm. This might be articles in management publications or industry association journals. This is a slightly different target audience and set of objectives to normal, business building, reputation enhancement. In the intended sale year a prospectus should be written. This forms the basis of any approach to potential acquirers. It must contain an analysis of the firm in its market and its unique characteristics. It should also forecast revenue scenarios for different types of business partners.

A professional setting up a firm with the intention of selling needs to take a hard look at what this involves over the long term and what is needed to be successful. First, they need to build a practice and take it through, probably, two full economic cycles. While doing this they need to build in capabilities which will distinguish it from competitors. Then, preferably at the start of a new economic cycle, they need to attract and close a deal with a buyer. There will then be a three- to five-year earn out where the capital they earn is affected by the performance and profit of the firm, now part of a larger group. Many rugged independents and entrepreneurial professionals find survival in these circumstances particularly hard. The need to fit in with the group's strategies, investment constraints and budgets can severely test the patience of the previously independent business owner. The full process is therefore likely to be a 15- to 20-year journey with a relatively modest capital return. It is not for the faint-hearted and has been the graveyard of many ambitious professionals' dreams.

In my view, much of the business theory developed by academics comes from and applies to big corporate businesses. It rarely sits easily with small professional practices. Nevertheless, effective practice growth is helped by decent strategy development, even for the smallest firms and they are more likely to succeed if they understand it.

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