

# Effective practice strategy

Whether your firm is small, medium, or large, **Laurie Young** says you have a duty of care to create a strategy for your firm

To prosper, all partnerships need to think about a range of “business” issues. They need to tackle revenue growth, cost management, technical development, and a variety of HR issues; all of which affect the health of the practice. They also need to plan how these interrelate, giving appropriate priority, funding and resources to each one. In short, every practice needs a strategy.

Yet, the way in which decisions are handled by practice leaders, the order in which they are made, and the nature of those decisions, can make the difference between success and failure. If decisions result in a rudderless drift, or fly in the face of market realities, or if they are not communicated throughout the practice, the health of the firm will suffer.

So the leadership has a duty of care to create clear, market-conscious, achievable strategic direction. Yet strategy takes shape differently at various points in a practice’s growth.

## The smaller firm

Single practitioners or smaller boutiques are often so engrossed in juggling client work that it is difficult to take time out to think through the health and direction of the practice. There are, though, strategic principles that they ought to consider.

## Early days

The first task is the launch of the practice which, however modest or grand, is a “market penetration strategy”. Some brave souls simply start; others take the advice of people they respect in thinking through the components of their new venture. Many, though, are forced to address these first steps by writing a business plan for their bank.

The aim is normally to gain volume quickly, so many plan a high impact launch. This is well enough, but there is a range of other issues to consider in these early days: cash flow, expertise to emphasise, other professionals to exchange referrals, and industry associations to join. Each will reduce the number of subsequent dark moments when a single practitioner is completing a piece of client work knowing there is nothing else to pay the bills for a day or two.

However, there is also a completely different strategic approach to consider: the “guru strategy”. This focuses on margin rather than volume. The aim is to build personal reputation over the long term and generate demand for an



individual’s expertise. It is primarily a pricing strategy, generating a strong pipeline of high value work so the practitioner never has to compromise on rates. Carefully done over a long period, it yields high returns – one world-class single practitioner charges \$US18,000 a day. It needs a soft launch, a three-year strategy from the start, and an appetite for investment in reputation enhancement.

## Next steps

Employees in established small practices can feel that they have no strategy to follow because there aren’t the well-crafted documents or clear planning schedules taught at business schools. The strategy is normally “extant”; seen, in retrospect, from the pattern of the leader’s decisions, often taken “on the hoof”. Nevertheless, firms led in this way can be very successful, achieving their “strategic intent”, particularly if the leader makes the direction clear to employees. Insight, decision, and action can follow each other very quickly.

During the initial growth phase, strategy needs to encompass: intended annual revenues, achievable day rates, primary specialisms, client acquisition, and other professions with which the firm will work. Some small practices grow by obtaining work from one major client, others by a volume of small projects. Either way, an early issue is how best to enhance the developing reputation of the firm. One of the most effective ways seems to be to employ a PR specialist to get speaking slots at conferences and articles in relevant magazines.

## Exit strategies

Strategy also has a hand to play in the exit sole practitioners can expect from their practices. And a thorough strategy at the start can make a sizeable difference to their personal take when it comes time to sell. For instance, larger firms will

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normally be interested in a small practice for reputation, intellectual capital, staff or unique client relationships. So 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 the criteria for success; they need to include items which will influence a healthy sale into their launch plans.

### Larger partnerships

For leaders of more sizeable partnerships, the most important strategic issue to consider is the appetite of their partners for any intended action or direction. As partnerships work through mutual ownership and consensus, there is often very little clear decision making. They tend to identify and work on immediate strategic priorities, often as part of an annual budget round. Initiatives are created by a wide consultation or buy-in process which gives ideas momentum. Providing no one strongly disagrees with the initiative, it will become, more or less, the common practice within the firm.

Even in the world's biggest partnerships, strategy development is less logical, systematic, and well rounded than academics recommend. In fact, many routine issues can languish due to lack of attention. These firms, do, though, tend to use one or two recognised management tools (like scenario planning or the "Ansof Matrix") to make assumptions explicit and bring leadership teams to a consensus.

Yet their ad hoc approach does tend to focus on the most important "strategic priorities". Usually, project teams are formed to implement different aspects of the strategy, often in addition to their normal jobs, and disbanded when the job is done. And this works very well. Some of the world's leading professional services firms are entering their second successful century of business with net margins consistently two or three times higher than those of the business clients they advise.

### Niche practices

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. 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, a mix of skills, geographic or sector knowledge, or, more rarely, their style of client service. Some practices in East Asia, for instance, are providing "back office", remote work to firms in leading western cities where fees are higher but lawyers are under pressure to offer more commoditised service. Sometimes, though, what marks out a boutique is little more than perception in clients' minds caused by reputation or fame.

Their strategy must be to preserve, at all costs, their point of differentiation. They must understand the clients' values and perceptions, and then work to build on them. They must invest in internal communication and training in the area of differentiation. Above all, they must also communicate it to the market in general.

### The publicly owned firm

This form of practice ownership is currently being debated in nearly all the professions, law included. In Britain, for example, the government has published a draft Legal Services Bill which, if passed, will allow private partnerships to go public and external investors to buy into firms. Yet we already know the likely effect from similar structures in various parts of the world. In the past few years, several private partnerships have gone public, including, *inter alia*: international consultancy Accenture, US search firm Heidrick & Struggles, and, of course, Australian law firm Slater & Gordon.

The approach to strategy in these entities is very different because ownership and governance is so very different. The leaders have a mandate to act for shareholders and delegate responsibility down a clear management chain. This ensures specialisation and freedom to act. In the US, Littler Mendelson, a corporation under Californian law, says that this has given it the ability to become one of the country's leading employment law firms through acquisition.

It is feasible for some partnerships to use this structure to enter other countries, making it part of their international growth strategy. Yet, even partnerships that intend to resist the one-off temptation for fabulous wealth, which often follows flotation, will need a clear strategy on how to compete against this new form of service. Experience shows that publicly owned professional service firms tend to develop streamlined service based on investment in technology and wider spans of control. They are also able to attract talent for less, using share options. So clients will need to be given clear reasons why to stay with private practices; part of a carefully thought through "competitive strategy".

### The future health

Whatever the size and shape of a practice, then, leaders need to take a little time away from the day-to-day demands of client work to think of its future health. They need to focus on the strategic imperatives relevant at any one time and allocate resources to tackle them. In fact, they need to be as professional in creating and implementing their practice's strategy as they are at their client work.

Laurie Young is an international adviser to the professions and a past partner of PricewaterhouseCoopers. See: [www.laurieyoung.com](http://www.laurieyoung.com)

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