

# Client strategy in a changing market

Andrew Hedley gives an insight into the findings of a recent report which provides a pragmatic route map for law firm leaders.



By Andrew Hedley

Client strategy sits at the heart of all strategy. Without the ability to attract and retain clients, at a price which delivers an acceptable level of profitability, no business can be viable in the longer term.

A firm's client strategy should be under constant review in order to ensure that the emerging needs of the client and the firm's competitive capabilities remain aligned. In a market that is undergoing fundamental and far reaching change, this requirement has never been more pressing.

## WHY STRATEGY MATTERS IN THE NEW WORLD ORDER

Since the collapse of Lehman Brothers at the end of 2007 sparked the worst global recession in recent history law firms have been reeling from a combination of the economic pressure that has been created compounded by wider structural and competitive changes. An industry which had become accustomed to year-on-year growth, firms which had expanded to become large corporates in their own right

and individuals whose personal wealth had amassed to levels which would have seemed impossible only a generation earlier, all had to recalibrate. And quickly.

The boom years had also seen the growth of another important constituent of the legal industry – the in-house counsel community. Corporates faced with ever escalating legal bills, increased regulation and the need for legal advice permeating throughout their businesses sought to gain increased oversight and control and the mechanism of choice was the creation (or expansion) of in-house departments. With increased sophistication in the purchasing decision, firms were already facing rising costs of doing business on the rise before the impact of the recession with fierce competition between firms for a decreasing volume of legal services and a commensurate downward pressure on fee levels.

In the new economic reality, it is clear that clients want their legal services delivered better, faster and cheaper. Competition is high, supply outstrips demand and the threat of new-entrants in a range of guises as a result of the deregulation of the profession threatens many firms of all sizes. Whilst the UK legal services market is in the vanguard of these deregulatory changes it would be wrong for other jurisdictions to see themselves exempt from the effect of the same societal forces. Whilst protectionist practices by bar associations can still be seen aplenty across the globe, the hard reality is that in an increasingly global business environment it will be more and more challenging for such regimes to survive in the longer term.

These are the ingredients of the competitive mix that leadership teams must now contend with – far-reaching changes in the nature of the client, increased competitive pressure catalysed by recession and fuelled by innovation and an increasingly commercial approach and, finally, the challenge of engendering change within their own firm in order to create a position of sustainable competitive advantage.

To survive and to prosper law firms need to put to one side the taken-for-granted assumptions that had served them well and come to terms with a new paradigm. Helping the leaders of law firms to create frameworks for thinking in order to better understand these challenges and the options open to their firms is at the core of developing client strategy. The leading thinkers in the profession are changing the nature of the competitive map – allowing their firms to strike out in exciting new directions whilst others remain mired in their history.

There is, no matter what some may suggest, no ready-made answer to these questions. Indeed, if there were, it would not be a good sign since, at its most fundamental, every firm adopting the same strategy can only lead to price wars in the absence of any basis for strong differentiation. Each firm has its nuances which set it apart – a different set of core competencies and a client base, or potential client base, which will allow it to create a defensible position.

## A NEW CLIENT ORIENTATION

However, it should also be understood that, just as in other industries, the market posi-

tion that a firm adopts will have an inherent impact on its absolute profitability as well as its longer term viability. What is key is that a firm develops a strategy which aligns its client opportunities, its business model and its competitive position.

This will be achieved by creating and implementing a new client orientation. By far the bigger challenge for law firms lies not in the intellectual niceties of defining a strategic position and strategy to support it but in the delivery of that strategy in practice. The real challenge of client strategy lies in areas such as:

- Confronting and changing the historic cultural norms of the profession which placed the client in a subservient position to the lawyer. A client based strategy means turning this position 180 degrees;
- Restructuring of internal processes to ensure that the client's experience is of a high quality and consistently managed across the whole firm;
- Alignment of behaviours, recognition and reward systems with the desired client experience. Without definition of required behaviours, measure of performance against these yardsticks and a clear line of sight between such performance and the firm's reward system, any initiative will fail;
- Introducing new working practices will mean careful consideration of systems and processes. They must walk the line of being as complex as necessary but as simple as possible if they are to succeed. Again the key challenge will not be in the design of client facing methods but in their adoption by the firm's people;
- Managing the process of change whilst still running a profitable business.

To deal with these matters effectively requires both a clear plan (that can be delivered within the resources and capabilities of the firm) and a management team with the skills and determination to see that plan through to its conclusion.

#### CLIENT PUSH – LAW FIRM PULL

We are witnessing a new business dynamic with competitive pressures creating a pincer-movement on unsuspecting (and under-prepared) firms.

On the one hand we have clients (and client

industry groupings) pushing firms to be more creative in their approach and to add more value to the services that they deliver – the mantra is straightforward, “we want it better, faster and cheaper” and, whilst historic loyalties may buy incumbents a small breathing space, firms should be under no illusion that clients will switch suppliers with increasing frequency in a highly fluid legal services market.

To a degree this is reflected in a number of firms developing initiatives which seek to secure longer term client lock-ins in return for reduced levels of overall revenue.

Others have put innovation to the fore in adopting new business models and by challenging historic working practices. Moves such as these form the other arm of the pincer.

The combination of client push and law firm pull has created a new level of intensity which firms without clear market positions and strategies are finding it difficult to respond to. A relatively small number of clients and firms in the vanguard of these changes are actively reshaping the market for legal services.

#### MORE ABOUT LAW FIRM PULL ...

There was a time when the thought of a law firm approaching its clients with ideas to make their service more efficient, reducing costs and improving effectiveness would have appeared fanciful (or just plain daft!). The norm was for a firm to give the client the service that the firm wanted to give and to charge what the firm wanted to charge for it. Indeed, there are still laggards who would prefer to operate in this way. The new breed of lawyer and firm has a quite different mindset, recognising that the way to build a business is to give clients what they value in ways which other firms find hard to match.

In so doing they create momentum within the profession. Unwilling to lose share, firms not naturally inclined to change historic working practices find themselves having to adopt a different approach in order to remain competitive. The ripple effect of one firm challenging the status quo stretches some distance across the historically calm pond of the legal services industry.

These leading firms, quite literally, pull other members of the profession into new working practices, modes of service delivery and approaches to relationship development because the slow majority simply cannot afford to be left too far behind by pacy competitors.

Forward thinking organisations see the benefits of gaining first mover advantage from a number of perspectives:

- By delivering more value to existing clients and positioning their firm as having a genuine interest in helping the client grapple with the challenges that they face – by engaging with existing clients in this way they forge deeper relationships, greater levels of trust and enhanced loyalty;
- By adopting a proactive stance in creating and adopting new approaches, the firm is able to attract new clients through promoting a range of added value services that others cannot match;
- By 'becoming famous' as a firm that is a trail-blazer in the fields of client relationship management, new service development and added value initiatives – such a market position is extremely powerful from a brand perspective which, in turn, is reflected in higher levels of awareness, improved client perceptions and better pricing;
- From an employer perspective, such businesses are attractive to those lawyers and support professionals who share a vision of a modern legal services business. By engaging with this talent pool, the firm can establish a virtuous circle – by attracting forward thinking people, the firm's action-orientation increases, creating more innovations which in turn serves to attract more forward thinkers to the firm.

Where these leading firms have gone we should assume that others will be forced, by commercial pressures, to follow.

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