

## Law firm management

## WHITE Paper

### Part 1: Strategic positioning: Developing and extending competitive advantages



The consolidation wave in the law firm market has left its marks. Competition for the best clients has increased sharply. The differentiation and positioning of law firms has taken on strategic importance. Each law firm needs a long-term strategy if it is going to stay competitive on the market and generate new growth. How should the expansion of law firms be managed, and how should partners, teams and locations be integrated?

“Why should I give this contract to you and not to another law firm? What does your law firm stand for?” Can you answer these decisive questions posed by a potential client?

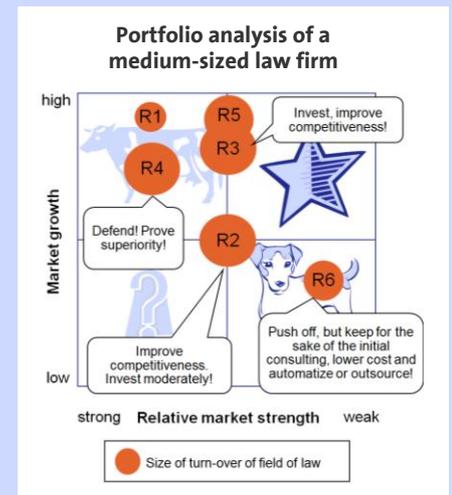
It is not enough for a law firm’s partners to plan out a few activities, and only for the next financial year, or if they only set personal targets. Before drafting a law firm’s strategy, it is crucial to first take analytical stock of the firm’s successes and weaknesses. This performance assessment of the law firm, including its various locations and practice groups, should be carried out in an unbiased way and according to a systematic approach. The partners should discuss the results, and these discussions should lead to new ideas and illuminate changes that need to be made. Comparing the firm to its competitors will help identify its strengths and weaknesses, which should be taken into careful consideration for marketing.

Schoen + Company examines central topics in professional law firm management in a series of four white papers. In doing so, we detail numerous, practical, consulting case studies and describe the theoretical approaches underlying them.

*“In order to be profitable in the long run, law firms need to define and implement clear strategies.”*

**STEP 1: STRATEGY DEVELOPMENT AND POSITIONING**

Long-term increases in revenue and profitability can only be achieved with a sustainable strategy. Special quantitative analyses of both the law firm itself and the market as a whole are carried out to systematically illuminate viable strategy options. Portfolio analysis, according to BCG, is a field-tested analysis methodology in which the single branches of law or topics are represented in a three-dimensional matrix. The first dimension portrays a firm's relative market-strength compared to its competitors, the second dimension displays market growth, while the third represents revenue with circles of varying size. "Cash Cow" is the name given to areas of law in which a law firm is relatively strongly positioned compared to its competitors, but which are generating little or no growth for the firm. These branches of law should be exploited, since they are the most profitable. "Stars" are branches of law that report high market growth and where the law firm is excellently positioned. "Question marks" are areas of law that grow at above-average rates, but where the firm is still weakly represented. "Poor Dogs" have a weak standing compared to the competition, and are in shrinking or stagnating markets. They tend either to be unprofitable or to be of little importance within the firm.



*"Cash cows have to be defended, since they are also attractive segments for competitors."*

**Case study:** A medium-sized, regional law firm with three locations offering services in six areas of law with differing revenue streams. Its practice in each of these legal areas is analysed according to its size, market growth and relative market strength. The following recommendations for action are made: in legal areas nos. 1 and 4, the firm must defend its position in the market, since these are attractive growth areas for other law firms as well. This can be achieved by investing in marketing measures for existing clients, or by hiring more personnel to work in these branches of law. The competitiveness of legal areas nos. 3 and 5 needs to be improved. A price-performance comparison of the firm to its competitors or targeted awareness measures could be helpful to this end. In legal area no. 2, only moderate investments should be made since market growth is only average. Legal area no. 6 poses the question whether it should be shut down or kept open in order to retain clients or for the purpose of introductory consultations. If it is to be kept, it must be made more efficient in order to boost profitability.

The case study illustrates how different the right strategies can be for the various single areas of law, and how important it is to base strategy decisions on analyses and key figures. Once a decision is made to implement a given strategy, recommendations must be made to ensure that the strategy is being implemented at all levels of the firm's operations.

### Competitiveness analysis



*“By making targeted investments, weaknesses can be eliminated in the medium term in order to enable the firm to stay competitive on the market.”*

### STEP 2: COMPETITION ANALYSIS

Many law firms know their alleged competitors by name but lack the ability to compare themselves to them concretely. In order to improve its competitive standing, a law firm must first define its strengths and weaknesses. A competition analysis serves this purpose, with which a number of a law firm’s characteristics are analysed in comparison to its strongest competitor. Several concrete criteria are addressed in each assessment category. For example, the category “Marketing” might include the subcategories “Quantity of marketing measures”, “Focus on target groups”, “Marketing budget” and “Selecting marketing staff”.

**Case study:** The competition analysis of one law firm indicates deficits in several areas. The law firm’s main strength is its personnel department. It does well in the area of staff turnover and with the integration of new partners. In all other areas, however, it shows significant weaknesses compared to its competitors. These weaknesses need to be eliminated in the medium term with targeted measures. The law firm wants to tackle its weakness in the area of revenue development by focusing on high-revenue client groups and the introduction of a cross-selling strategy between practice groups.

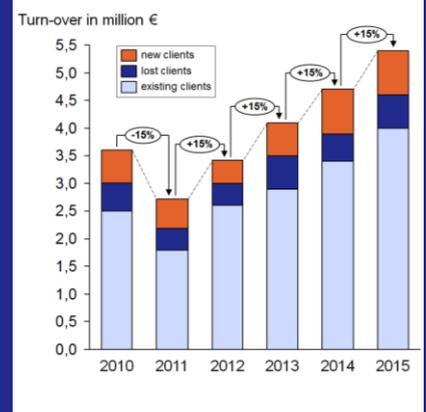
### STEP 3: LONG-TERM GOALS OF LAW FIRMS

If a firm decides that its main strategic goal is growth, it has to be decided how that growth will be achieved. The appropriate approaches to increasing revenues have to be selected from the many available options. Growth can be achieved by acquiring new clients, by expanding the existing client base, by geographical expansion to acquire more remotely located clients, or by opening new office locations. In the latter case, the time-consuming process of building up new teams from scratch has to be weighed against the acquisition of teams of other law firms. Another possibility is to optimise the firm’s pricing system to implement higher, variable hourly rates that are adjusted according to each client’s individual situation.

The central question remains: Which specific client segments are to be served in future and how can the existing client structure be extended?

**Case study:** This firm’s long-term growth target is a 15% average yearly increase in revenues. This is to be achieved both by strengthening the firm’s bond with existing clients, and with the acquisition of new clients. Doing this will help minimise the number of lost clients. We have put together detailed packages of measures for all three approaches.

### Revenue development

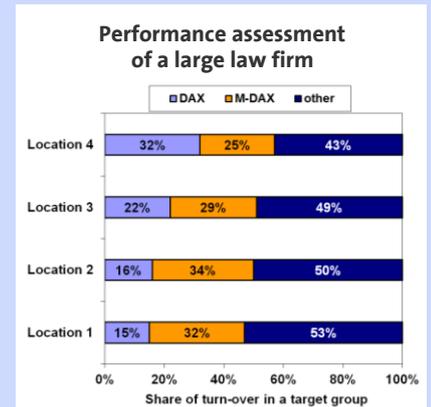


*“Customer retention leads to loss-ratio reduction and secures long-term revenue growth.”*

**STEP 4: PERFORMANCE ASSESSMENT**

An important tool for systematically evaluating the performance of a law firm is the performance assessment, for which the key performance indicators of different locations, practice groups and between partners are compared. Typical key performance indicators include penetration of target market segments, share of revenues, hourly rates, profitability, as well as marketing efficiency. These key performance indicators can then be used as benchmarks either for a revision of long-term, strategic goals, or for short-term measures to eliminate identified weaknesses.

**Case study:** A large, international law firm has four locations in Germany. The DAX30 and M-DAX companies form a vital target client-group. One of the firm’s marketing goals is to increase revenues in its locations serving this target group. Right now, location no. 4 reports the best performance, since one third of its revenues stem from DAX30-companies. M-DAX companies are strongly represented at all four locations. Locations nos. 1, 2 and 3 need to systematically increase revenues from DAX30-companies and make increasing use of their synergetic potential.



*“Targeted exploitation of synergetic potential can boost the share of the firm’s revenues from the target group.”*

**Checkliste – ten questions on the strategic positioning of your law firm:**

- |   |                              |                             |
|---|------------------------------|-----------------------------|
| 1. Have you formulated your firm’s strategy in writing?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 2. Are all partners/employees familiar with the strategy and are they implementing it day to day? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 3. Can you identify your firm’s cash cows, stars, question marks and poor dogs?                   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 4. Have you laid down quantitative goals for the next three years?                                | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 5. Do you regularly carry out strategy reviews?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 6. Do you base your strategic decisions on intuition or on quantitative data?                     | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 7. Is your firm’s current direction in line with your strategy?                                   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 8. Do you know your firm’s competitive positioning?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 9. Do you know your firm’s strengths and weaknesses?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 10. Do you currently undertake yearly performance assessments?                                    | Yes <input type="checkbox"/> | No <input type="checkbox"/> |



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