

GROWTH MATTERS

Macquarie Roundtable 2010



Growth matters: set your vision

Many firms in the legal sector are cautiously optimistic about growth in the year ahead. But how do you go about setting the right growth strategy for your firm? Macquarie Relationship Banking's second series of roundtable discussions focused on a practical 'how-to' for growth, and resulted in some interesting insights and ideas.

Over 50 partners from small and medium-sized law firms attended the sessions in Melbourne, Brisbane, Sydney, Gold Coast, Perth, Greater Western Sydney and Adelaide. Partners were candid about their strategies for growth, and the potential pitfalls they plan to avoid along the way.

Rob Patterson, founder of Parkin's Lane Consulting Group, shared the lessons gleaned as chief operating

officer of a fast-growing national law firm.

Growth in uncertain times

"Global economies are still languishing, and locally we're seeing soft retail sales, especially when it comes to discretionary spending," said Terry Lyons, head of legal industry at Macquarie Relationship Banking, as he opened the Melbourne event. "At the

same time, wages pressure is starting to re-emerge in legal firms, and we're seeing more staff turnover."

Stella Angelo, associate director at Macquarie Relationship Banking, also noted that many clients are questioning the cost of legal services.

"They are ultimately looking for value, which has provided smaller boutique firms with new business opportunities. But it's important to focus on value, not cost."

Organic growth is seen as a safe option during uncertain times, and also a motivating strategy for current employees, but it takes time. It's a long-term approach that requires planning and commitment from the whole firm.



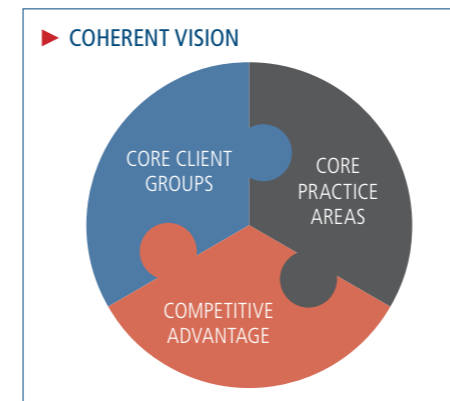
Stella Angelo
Macquarie Relationship Banking

Defining a vision

Rob Patterson believes the fundamental key to successful growth is defining a vision. "Without a coherent and compelling vision, a strategy runs the risk of being directionless. As a result [it] will deliver poor returns, or worse, have a negative impact on your profitability and reputation," he said. "But a vision should not be a long-winded motherhood statement. It's a set of short, punchy bullet points that set out what your firm will look like in 5-10 years time."

Your vision needs to cover three things:

- Who are your core client groups?
- What are your core practice areas that meet those clients' needs?
- What is your competitive advantage?



These three elements must be aligned for a successful growth strategy to emerge.

Focus on clients' needs first

The legal needs for a sole proprietor are quite different to those of an ASX-listed company. So it makes sense to begin with who you're dealing with.

Patterson explained that there are four ways to segment your client groups.

"You can look at size: high-net-worth individuals through to small businesses, national companies or large multinationals. Or you can look at it by sector: private, not-for-profit, commercial or government, for example. You can focus on geography: local clients, state-based, national or global."

But his preferred method is to focus on industries. "If you can talk in terms of the industry you're dealing with, you have a much greater chance of winning that client." He noted that during the financial crisis, it was tempting to water down the core client focus. "But as a growth strategy, 'whatever walks through the door' won't work in the long-term. You need to work to your strengths."

For example, a successful firm that is known for its work in technology is now expanding to emerging industries. They're simply taking the same skill set and applying it in a related area with burgeoning opportunities.

During discussions it was clear that some law firms had a solid focus on their core client groups, including specialists in certain cultural groups through to government expertise. "We need to get more engaged in federal government," commented one partner. "But this comes at a cost; we need to invest resources in opening a Canberra office and getting the right people with the right relationships opening doors."

Mind the gaps in your practice

Do your core practice areas relate to the needs of your core client groups? If not, it's time to put them aside and focus on the gaps. "You need to have alignment between your practice areas and core client group," said Patterson. "Look for areas that are most valuable to your clients, or for skills they are looking elsewhere to fulfil."

You can develop the breadth or depth of your core practice areas. The breadth of your offering covers boutique practices through to general or full-service law firms, or you may want to go deeper into a specific area of expertise.

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For example, if you're currently practicing in property generally, look at adding specialist skills in leasing, planning, management rights and so on. "This works well when you lead with your strengths," Patterson remarked. "But if you bring in a new hire, make sure the cross-sell is sustainable between the client groups."

"We've just moved into modern premises with new technology, and we're looking to deepen what we do in some areas, and drop off some of our less profitable areas, by working on our processes," said a Melbourne-based partner. Another said they were identifying key area gaps with their existing clients as a way of extending their stronger relationships.

"The partner should maintain the primary relationship. But there is significant benefit in involving your team. They will learn business development and relationship management skills along the way"

One clear, distinct advantage

"Running with a 'me-too' strategy simply won't cut it in today's competitive environment. You need to understand what your competitive advantage is, but in some firms it's like a well-kept secret," said Patterson. "Why do you win work? What keeps your clients with you?"

There are many ways to build a competitive advantage. The model presented was initially developed in the US by Michael Treacey and Fred Weirmsma.

It highlights three simple ways to determine a point of difference.

1. Process or organisational excellence: for example, a small firm who has great precedents, streamlined systems and processes and low overheads, and can deliver accurate documentation quickly and cost-effectively.

2. Expertise or thought leadership: these are the top firms in

their field, with a high-end strategy focus.

3. Relationships or customer intimacy: working for a limited number of clients, and really understanding their needs in all areas. You may act as a trusted partner, where they won't make a move without talking to you first.

"Partners sometimes say; 'well, we want to be all these things,'" Patterson commented. "But you can't. You can't be experts at the high-end and be a low-cost producer. And you can't maintain the process-driven margins if you only have a handful of clients."

This doesn't mean you can't be good at all these things. You just can't be

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the best in all three areas. "Accept that your processes will be OK and your people are good at what they do, but your core strength is having the best relationships in Melbourne, for example," he concluded.

Among the discussion groups, it was clear that for many sole practitioners relationships were a key advantage. "We find the cost of getting our processes right is a challenge," admitted one partner. "But we are really able to solve problems for our clients."

Others plan to develop their relationships even more deeply, by getting out amongst their clients, visiting their place of business and really understanding what they do. "We've recently opened another office in the CBD to network and build better relationships," said one partner. "There's now a strong rivalry between the two offices, but it seems to be working positively, and we work well together as a team."

Set the vision: growth will come

The uncanny truth is that once you define what you want to be and get your vision right, opportunities for growth

will present. If you're comfortable with your core client groups and practice areas, growth will happen organically. But if you recognise your need to build a certain practice area up, then a lateral hire will fuel your growth. Also, if you realise you need to expand geographically, a merger may be the way ahead.

Likewise, re-focusing on your core clients (and letting some go) will naturally attract more of the same. Referrals will happen more easily once you focus on the groups you most enjoy working with. Developing a cross-referral process is an important part of any growth strategy, but it comes down to trust within the firm. "There's a two-way obligation between the referee and referrer," explained Patterson. "This includes the transfer of information, prioritisation of work and quoting."

Retaining core talent

Staffing was also a big focus of discussion. "From a growth perspective, we're a people business," said Andrew Chen, principal at WHK Horwath. "How do you motivate your talent to win new clients and manage relationships?"

One partner commented that "lateral growth can't happen on its own, as the staff you bring in are more experienced you'll end up with a firm full of older lawyers. You need young people too, and that comes through organic growth. Fast-track people who are valuable and talented."

It's important for staff to feel they are part of a team. One way is to bring them into client meetings so they can also build relationships at all levels within the business. The risk, of course, is that they'll leave, taking that client with them. "The partner should maintain the primary relationship," said Macquarie Relationship Banking's Lyons "But there is significant benefit in involving your team. They will learn business development and relationship management skills along the way."

It's also critical to understand staff aspirations and goals, and meet them where you can. "Not all lawyers want to be partner," said a Sydney-based partner. "There are more options now.



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And money is one factor, but it's not everything." Organic growth in itself is motivating. "We want to grow our client base in existing practice areas," said another partner. "But we're not interested in becoming another big firm. We want to keep the loyalty of our talented lawyers and lateral hires would undermine their motivation."

When it comes to lateral hires, cultural fit is imperative. "A lateral hire is almost a mini-merger in the way firms should cover off due diligence. Because if you get it wrong, it can be a cancer within the firm," said Patterson.

Defining culture as you grow is an issue. "Equity partners have grown the firm from the ground up, but bringing in salary partners sometimes creates a conflict if they don't understand what we really stand for," said a Melbourne-based partner.

Planning for growth

All growth needs to be funded, so think about your strategy as early as possible. "Your bank needs to be your partner, a partner in your balance sheet," said Adam Ortmann, senior credit manager at Macquarie Bank. "It should help you with forward planning."

Organic growth requires a long-term focus. Think in dollar terms about what you need for the three, five and 10-year horizon. What will be your additional working capital requirements? For example, a firm with an asset base of \$3 million, average lock-up of 150 days and forecast to grow by 10% each year, will need an additional \$400,000 in working

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capital over a three-year period.

"It's not an 'if', it's a 'must,'" explained Ortmann. "This money can only come from debt, retained profits or new equity partners. And this can end up causing concern amongst some partners who'd prefer to distribute all profits at the end of the year."

"An external perspective can get partner discussions going," agreed Angelo. "It's important for all partners to agree on what defines success for the firm, and for everyone to buy in to that vision, philosophically and emotionally."

"Physical limitations, such as office space, human resources and funding can all be stresses on growth," Lyons concluded. "So build some capacity and flexibility into your strategy, and plan ahead before you get growing." ALB

