Group Dewey Consulting

THE BASICS OF LAW FIRM DIFFERENTIATION

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There's a great deal of discussion in law firm management circles about law firms differentiation because, by and large, the business models of law firms are remarkably similar. In fact, law firms are dizzyingly undifferentiated. With the ubiquity of the internet and the flattening of the global playing field (among many other factors), law firm leaders' ability to differentiate their firms and deliver consistently on their promise of value is becoming more critical.

The promise of differentiation is that it can create a unique value for clients to such a high degree that it both attracts clients and creates obstacles to competitors. This is no easy task. It takes a keen understanding of client needs and wants, market forces, the business and economic models of law firms and the fundamentals of differentiation. Oh, and you'll also need unusually strong leadership and a smoking good strategy implementation process. But, the first order of business is to understand the basics of law firm differentiation. With this knowledge, you will gain a sense for whether your firm is moving toward or away from differentiated market position.

While there are innumerable ways to differentiate a law firm, every differentiation strategy can be categorized within one of three broad strategies: Product/Service Innovation; Client Intimacy; or Organizational Effectiveness. As the following graph suggests[i], each strategy is described by three characteristics: the intrinsic drivers of growth, the greatest challenges in implementation and the competitive advantage of each strategy.

	1. Product/Service innovation	2. Client Intimacy	3. Organizational Effectiveness
Growth Driver	Early command of emerging issues and specialization enables premium rates and client trial: ***Achieving speed is key***	High cost of acquisition and low switching costs makes it imperative to gain large share of client's legal spend (wallet): ***Improving scope is key***	High fixed costs make large volumes essential; Process improvements protect profit margins and improve predictability: ***Managing scale is key***
Key Cultural /Organizational Challenges	Battle for talent and expertise; low barriers to exit requires coddling of stars	Improved service delivery; improved cross selling; effective comp. sys.	Improving efficiency; improved marketing effectiveness; best strategic investments; M&A and lift outs
Competitive Advantage / Value Proposition	**Specialists and Experts**	**Client Focused**	**Best Value Option**

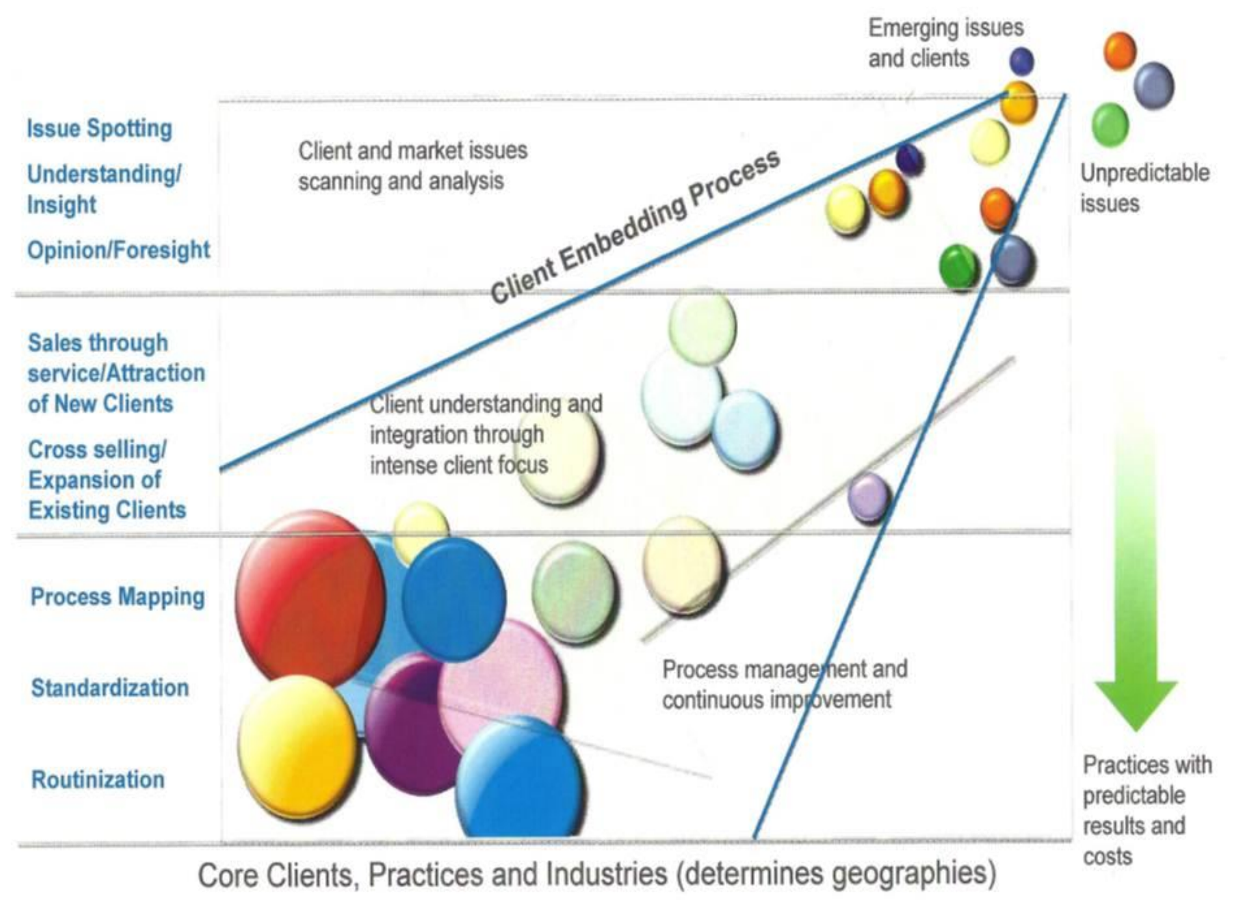
Product / Service Innovation refers to the law firm's ability to identify emerging issues and trends, develop knowledge and solutions to address those trends and communicate these capabilities to the market place. The most common forms of this are in the practices law firms develop. For instance, a lawyer in the firm might look at the healthcare industry, see a trend in Qui Tam matters and develop an expertise in this area. The firm then communicates this new capability to the market place and the practice grows. The pace at which this happens is the competitive advantage a firm can build, especially if they identify these new opportunities faster than their competitors and are first to market to provide the advice.

Client Intimacy refers to the firm's ability to understand and address client needs and wants.

Organizational Effectiveness refers to the Firm's ability to operate in a lean and efficient manner, especially in the face of growing size. The larger a firm gets, the more it must manage the complexity of the firm and squeeze profits out of the scale of the firm. Only by doing this can the firm offer improved value to its clients.

Within each category are dozens of ways in which law firms can differentiate themselves. For instance, within *Client Intimacy*, firms can build competencies in responsiveness, accessibility, problem solving, proactive communication, etc. Law firms can combine various attributes to create their own 'secret sauce' making them them unique in the marketplace and difficult to copy.

Graphic #2



How to read the Legal Services Model

The legal services model combines the lifecycle of legal work with the factors of price sensitivity and revenue volume. The lifecycle is the path which all legal issues follow from emerging issues with unknown or high risk to routine matters with low or predictable risk. [See graphic #2]

The Y axis (not shown) is defined as the ***strategic importance to the client*** of the legal work and runs from low importance at the bottom to high importance at the top of the graph. The X axis (also not shown) is defined by the ***relative ease of substitution*** in which a company can replace the firm without sacrificing quality. It runs from very easy to substitute rival law firms on the left to very difficult to substitute on the right.

Price sensitivity, if you recall your high school economics class, is lowest in the upper right hand quadrant where work is strategically important to the company and where few if any substitute law firms can do the work. In the lower left hand quadrant, price sensitivity is high because the work is not strategically important to the client and lots of competitors compete for the work.

The bubbles represent the ***volume of a practice area***, which in most cases grow larger as the prevalence of the work grows. Legal work and issues mature along the same curve as price sensitivity and begins as emerging issues or new types of legal work in the upper right hand quadrant. The work evolves toward commoditization in the lower left hand quadrant as greater knowledge of the risks is learned and more rivals enter the market to handle the growing volume of matters and cases.

Overlaying differentiation strategies against the lifecycle model

The three core differentiation strategies relate to the legal services lifecycle model in that the upper third of the model represents the portion of the legal services life cycle in which differentiation in product or service innovation occurs. The middle portion is where differentiation from client intimacy occurs. And the lower portion of the graphic is where differentiation from organizational effectiveness occurs.

The key to differentiating a law firm is in how well the firm defines its differentiation strategy, its selection of complementary differentiators and its diligence in implementing the differentiation strategy. But easily the most important factor is the firm's ability to implement the differentiation strategy.

Complexity is the enemy of differentiation.

Law firms, by their nature, are prone to complexity. The purpose of a differentiation strategy is to clarify the firm's unique selling proposition to clients. It clarifies to the marketplace the value that the firm promises to deliver. Or, more importantly, what it will NOT deliver.

Crafting a value proposition is not unlike chipping away at a stone until the beauty of the statue is revealed. Law firm leaders must assess each practice, location, attorney, staff member, policy, procedure, client and technology to understand the degree to which it contributes to the strategy. They must go through the process to identify all of the non-value added and/or non-performing activities and investments (read: complexities) which can, and should be, shed.

So you think you have a strategy?

It is often said that 'strategy is the art of saying no'. This is very true. In fact, one clear indicator of a firm's diligence in implementing a differentiation strategy can be seen in the pace of its divestures. Or, more simply, in what it chooses not to do.

Divesture is the opposite of investment. It is a conscious decision by the firm to stop investing in something which will starve that activity and make it go away. Firms who are active in identifying the people, geographies, practices, clients, projects and technologies that they will divest from are firms who are more likely to have clarity in how they are building their differentiation in the market place. Divesting reduces the complexities that cause confusion, both internally and externally.

A simple way for law firm leaders to gauge the degree to which the firm is concentrating its efforts can be understood simply by tracking the type of activities that the firm divests in. Examples include eliminating unproductive attorneys, closing unnecessary offices, shuddering unprofitable or out of date practice areas, gracefully declining work from unprofitable clients, etc. These activities are incredibly hard, full of risk and should not be taken lightly. However, no strategy gains traction without divesting in those activities which are no longer consistent with the strategy and which tie up needed resources.

The answers you get to these questions will show you exactly why law firms are so difficult to differentiate. It is hard to do without someone getting hurt. And in the fragile world of law firms, most law firm leaders find the safest harbor is in not rocking the boat at all.

ABOUT THE AUTHOR

Group Dewey Consulting provides complex consulting services to midsize law firms and practice groups. Our strengths include: strategic assessments and planning; client development programs and coaching; client satisfaction research and client service programs; and marketing, branding and communications.

Eric Dewey is an expert in driving growth and efficiency in professional service firms through innovative and practical marketing and client development strategies. With over 25 years of marketing and business development experience in five service industries, Dewey has counseled hundreds of attorneys in prospecting, client development, marketing effectiveness and presentation skills. He brings executive level leadership, sound business judgment, innovative strategies and a breadth of practical knowledge to his engagements. He has three daughters, is a semi-professional percussionist and plays league Ultimate.

A prolific writer, Dewey authors the Legal Marketing Blog, Lawyer Up! Strategies and has been named the 2013 *Law Practice Management* magazine's Guest Editor for its annual marketing and client development edition. Ranked in 2012 the 153rd among the 500 top CMOs from among 15,000 in the country, Eric holds an MBA from Ohio University, a Certified Financial Marketing Professional (CFMP) designation through the American Bankers Association and the University of Colorado and a Certified Marketing Director (CMD) designation from The International Council of Shopping Centers and the University of Michigan. Dewey has held the senior-most marketing professional positions in two AmLaw 200 law firms, the largest securities class action firm in the U.S., a regional bank holding company and several commercial real estate developers. He has consulted small and midsize law firms and businesses since 1996.

[i] This graph was adapted from a graph presented in the book, Business Model Generation by Alexander Osterwalder & Yves Pigneur.