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Differentiation: Choosing the battles to fight

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In any business situation, it is crucial to make active choices about the battlefield on which you wish to compete. These choices also direct the investment of scarce resources within a firm, which need to be prioritised and aligned with clear strategic objectives.

Considering the spectrum of legal services, ranging from commodity work to 'life and death' services, price sensitivity increases as one moves from higher value-added work on one side to commodity products on the other. However, in terms of running a successful and profitable business, it is perfectly possible to make very respectable returns across this spectrum - provided that there is an alignment of clients, people and operational structure. However, too many firms do little to manage this series of interactions.

Picking up on this theme, it can be argued that competitive advantage flows from managing the interplay of three things: the client, competition and the firm. We need to understand all three to devise an effective approach to managing and monitoring each individually, as well as their interplay. However, all three are moving all of the time and we only have direct control and influence over our own firm. As a starting point, remember the ABCD rule: Always Be Collecting Data. Without a rich seam of knowledge to guide your decision making, you will be exposed to making choices based on hearsay, assumptions and 'the future will be like the past' mentality. This is a dangerous basis for strategy in 2004.

Thinking about clients In Managing the Professional Service Firm1, David Maister states: 'The single most important talent in selling professional services is the ability to understand the purchasing process (not the sales process) from the client's perspective.' He adds that the better a professional can learn to think like a client, the easier it will be to do and say the correct thing to get hired.

This shouldn't be an earth-shattering revelation for anyone with even a superficial understanding of human behaviour. Yet, for many professionals the ability to put themselves in their clients' shoes is a difficult concept - not to appreciate intellectually but to deliver pragmatically.

It is important that we address the distinctive attributes of our services when we develop strategy. For example, the inseparability of service production from the people charged with delivery is a key issue both in client relationship and firm management. Within a professional service firm, there is inevitably some variability in the way in which the service is delivered from Moreover, because our services are intangible - they can't be tested in advance or judged on their technical quality - we need to understand how this impacts the perceived benefits of our offer.

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There is clearly no point in attempting to differentiate on dimensions that are not valued by clients, regardless of how worthy they might appear within our own business.

Differentiation isn't easy because there are so many levellers within the professions, many of them promoted by the profession itself. Professional qualification in itself is a great leveller - what it says to the lay person is that all of these people have a consistent level of competence to do your job; each should be able to provide a satisfactory level of technical expertise. Of course, there is often a higher level of buyer knowledge within the corporate and commercial world. Here it is nearly always the case that firms find themselves competing in a 'weight class'. Your firm is placed, in the mind of the client, within a small number of 'likely players'; they form your competitive group and have a broadly similar offer in terms of expertise, resources, brand position and price.

Some clients now go much further by creating a pigeon hole for your firm, for a period of time, on a formal list or panel of approved suppliers. What they are effectively saying is: 'I have taken a view on what I trust you to do for me and I intend to restrict your access to my business on that basis.' How frustrating - they are treating professionals like any other supplier. This is an increasing trend that needs to be incorporated into a firm's sales-development plans.

We need to appreciate how our target clients and prospects make their purchasing decisions – both generically and individually. We also need to understand how they evaluate service on an ongoing basis. This is one of the most important dimensions of a differentiation strategy.

There are a number of over-arching factors that clients rely on to judge quality and 'fit' with their advisers.

Complex services need a proxy Proxies are very important in professional services - they don't tell the client how it will actually be but they give you a good indicator as to how it might be. They provide the feel-good factors that reinforce the purchase decision, give confidence and build credibility.

Relevant experience in technical law and in the client's market sector is a very powerful proxy. Many lawyers still argue that the law is the law and the specifics of the sector and business are largely irrelevant. While this may or may not be true from a law-firm perspective, this isn't how the client sees it. Sector-based expertise and an understanding of the dynamics, competitive pressures, structure and vocabulary of a particular market are being used as a source of competitive differentiation.

References and testimonials provide an excellent proxy in many client decision-making situations. A strong testimonial is a bit like saying: ‘I haven’t used the firm myself but these people who are just like me, in similar businesses, with similar problems have done. They rate the firm highly, so I can feel pretty safe.’

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An analysis of law-firm retention levels also provides an interesting proxy for quality. Research at Harvard Business School a number of years ago examined how quality could be evaluated in professional-service firms. One of the things that came out of the research was that the firms that were widely acknowledged as being of the highest quality had excellent levels of client retention. Unsurprising really, if your clients are very pleased with the service that they receive and the price that they pay, they are unlikely to defect. How closely do you monitor your client retention? Why do serial purchasers not come back to your firm? Why is a client’s year-on-year revenue stream decreasing? The link between retention and the ability to demonstrate strong credentials, references and testimonials is also clear.

Physical evidence also matters. For example, it is easy to appreciate why an architect occupying run-down offices with a leaking roof is unlikely to instil confidence in his clients that he is the man to design the building of their dreams. At the other extreme, some firms have to walk the fine line between demonstrating success through their physical environment and appearing ostentatious. On balance though, most large corporates like their advisers to be well regarded and successful in their own businesses; manifesting this through the physical environment is one way of increasing confidence in the firm. Research has also been conducted into the role that risk plays in a client’s decision making and found that in selecting a professional-service provider, clients’ single most important consideration is risk reduction.

My own take on this is quite simple: when any client employs a professional (even when that client is also a professional) there is some simple psychology at play. Somewhere inside the client’s head there are three flashing lights saying:

1. This is potentially going to cost a lot of money;
2. It’s complex and I don’t really know how to measure and judge it;
3. If this goes wrong, there could (or will) be some pretty serious consequences for me personally in terms of my long-term career and business.

All of these factors lead to a desire to make a low-risk, high-trust decision.

It follows that marketing and sales strategies that pay off within professional services tend to underscore factors that mitigate the risks of failure and embarrassment. Rather, they need to provide assurances of safety.

It is also why brand position is so important we are most definitely in the ‘no one got fired for buying IBM’ arena for many high-value or business-critical projects. It also goes some way to explaining the glass ceiling that many firms experience in attempting to secure work that is within their range of technical competency, but for which they have the wrong brand profile from a client’s risk perspective.

The competition

In the highly structured and segmented world that I have described, understanding the other firms competing for a slice of the action is hugely important. These are the specific players that your differentiation strategy needs to centrally consider since it is with this relatively small group that you will fight most of your battles, win most of your clients and inevitably lose a few skirmishes along the way.

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Of course, taking this competitive view of the market allows firms to develop much more focused, tactical responses to specific opportunities. To be effective at this level often means differentiating through being one per cent better at a host of small things (rather than a couple of big things), which when combined puts your firm above the competing pack. For real success, however, firms must have excellent competitive intelligence. How many of you do regular competitor analysis? How many of you benchmark your performance across a range of variables - both financial and non-financial? In your account and sales plans, do you play to the specifics of each competitive situation? In a pitch, how much do you focus on the competitive advantage that you can bring to bear against the small number of firms pitching rather than just broadcasting your own attributes?

There has been a reasonable amount of research looking at a wide range of purchase criteria within groups of clients. The findings are consistent and a selection of the top-line results are highlighted here.

This research looked at the relative importance of various law-firm service attributes to clients and benchmarked their views of how law firms performed. By benchmarking importance to performance, it is possible to identify areas where clients’ needs are satisfied (or even oversatisfied in some cases) and areas where improvements would be both desirable and create advantage. Moreover, the importance-criteria scoring provides a basis for differential investment decisions that will deliver improvements in the areas of most significance to clients. It is also the sort of gap analysis that identifies both potential opportunities for differentiation and areas in need of investment.

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I have a view of competitive advantage that is based on recipes not ingredients. By this I mean that if you asked any competent business developer or strategist to list the things that are important in client choice, they would all be able to produce broadly similar lists. These are the ingredients. The question, however, is not about ingredients it is about recipes - how they are put together to produce an intoxicating dish or a bland mish-mash.

If one were to list all of the performance criteria in rank order and then score firms in a 'weight class' against them, all firms would score highly until the lower reaches of the ranked list. This is the place where differences that matter start to appear. I say 'differences that matter' because these things have to be determinant rather than just different.

As a leader and manager of a professional firm, it is also crucial to appreciate that the firm as an organisation will not forge a significant number of key differences. They will be created by the personalities of the individuals that make it up and their interactions with each other and with clients. This is a key issue for management teams and lies at the heart of any brand or values initiative.

The things that we like to give. These are the areas where law firms generally outperform the needs of the client group:

- Keeping the client informed of changes in the law via bulletins, website, etc;
- Working with clients on developing their internal systems;
- Providing an extranet facility;
- Providing training for clients and their staff; with high levels of partner involvement;
- Providing secondees

Cynically, they can be grouped into three categories: the things that professionals like to do; the things that professionals find it easy to do; and the things that can be subcontracted to someone else. In this group are the broadcast items, the things that allow us to demonstrate our knowledge in an unchallenging environment, that are within our comfort zone, put us in the position of professional expert and allow us to stand apart from our clients.

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Also in this group is lots of very expensive partner time, regardless of the needs of the project. The collateral, of course, is a poorly structured team and an expensive project. The list contains the things that are easy for a professional firm to do ñ why talk to a client when you can interact with them electronically and sub-contract the hassle to the business development or IT department?

The things that they want to receive. On the other side of the coin are the things where a client group typically feels that law firms under-perform (quite seriously in several instances). For example:

- Good time-management skills and hitting deadlines;
- Cost transparency – monitoring fees against budgets;
- Commercial advice to meet business objectives;
- Clear and concise written and verbal communication;
- Commitment of external lawyers to get a ‘result’ for the client;
- Experience and understanding of the client’s business sector;
- Enthusiasm and drive.

Everybody will recognise times when these have been issues that have compromised a client relationship. These are the things that professionals typically find difficult or unsavoury or both. They are often on the fringes of what our professional training has taught us about being an excellent member of our profession.

It’s also interesting to look at research into professional indemnity. In macro terms, it is relatively rare that a professional fails on a central point of their professional competence - they get sued because they don’t get the sorts of things on this list right.

Of course, these are also the areas where competitive analysis may reveal opportunities for differentiation and where unmet needs can be addressed in a distinctive way.

Know thyself

The final area to consider in looking for areas of sustainable differentiation is within your business itself. I have left this until last, but it is the most significant source of, and constraint on, the successful implementation of a differentiation strategy.

Strategic realism is absolutely fundamental. The biggest constraint on a successful strategy will often be within your business. In professional services, change, such as the corporate ability to enter the M&A trail or to divest non-core businesses in short order, is the equivalent of asking turkeys to vote for Christmas. Change has to be more incremental and necessarily slower.

There is a need for buyin and the professional mentality requires evidence of success before proceeding too far down a new road.

It should go without saying that you need to start from where you are now, by which I mean that strategy devised in a vacuum is worthless. However, this hasn’t been the approach adopted by a number of organisations. Over the past few years, there has been a vogue for grand strategy that is dislocated from current competencies, resources and the competitive position of the firm.

Unsurprisingly, such initiatives have a tendency to fail.

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Implementation is the point at which most strategies come unstuck because people don't like change. Unless there is an imperative, which is often either a strong, robust leader who is prepared to deal with difficult issues or a business facing a disaster scenario, there is very little pressure to change from within the business itself.

In accepting that differentiation is necessary, and that it must be more than wallpaper, we also accept that everybody must be prepared to change to a greater or lesser degree. Unfreezing the business is key. To do that, you need to understand both the hard and soft information.

In the first article, we looked at the dimensions of strategy. We identified that strategy is about making choices and trade-offs, that operational effectiveness is not strategy and that strategy is about saying no to good ideas that don't fit. We also need to appreciate that strategy is about the interaction of market opportunity with business competencies and the degree of stretch that the business can achieve to get the best possible fit between the two.

We are now at the point at which we need to address achieving the best fit between our business and the opportunities presented by the market. In so doing, we will have to assess what changes we must make to our business with all of its strengths and weaknesses, competencies and resources. We will also need a clear plan to implement these changes. This will be the topic of the final article: choosing the right approach for you and then ensuring that it is effectively implemented.

Reference:
1. Maister, D., Managing the Professional Service Firm, published by Free Press, reprint edition, June 1997

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