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Competitive Force

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The book *Blue Ocean Strategy* challenges the primacy of competitive strategy theories. While originally developed to support longer-term corporate strategy, the principles of a Blue Ocean approach can be adapted to create new value propositions and strongly differentiate a law firm.

Rather than simply dominating existing markets, it argues that strategy should be about creating new markets and focusing on value creation through innovation. A business should concern itself with “how to create uncontested market space and make the competition irrelevant”, rather than simply trying to overcome current competitors in ways which are often profit eroding.

Blue Ocean Strategy also introduces the concept of the value curve, a tool which allows organisations to plot their areas of advantage clearly and to articulate strategies which are difficult to imitate, while highlighting key areas of value innovation.

The deregulation of the legal profession in the UK will create opportunities for Blue Ocean players both from within the current set of firms as well as for new entrants. This second group will come to the market unencumbered by history and the norms of behaviour which have hindered innovation in the legal sector. Consequently, these new entrants will likely make significant inroads in some segments of the market by offering services in ways which have not been attempted before.

Developing strategies

In crafting client-centred strategies, it is important to separate ‘table stakes’ issues from those which have the potential to add significantly to a firm’s strategic advantage through a redefined value curve. Both are important but for different reasons and should be considered independently.

Table stakes

‘Table stakes’ refer to those service factors that are provided because they create the basic level playing field on which more distinctive value elements can be built. These are issues which marketers would refer to as hygiene factors; they are the ‘must haves’ for a firm to be a credible player in a particular market or practice area.

In this respect, they are necessary but not sufficient. They are important in the sense that they create a common platform but do not offer any competitive advantage since others have offerings which are equally competent on these attributes.

Many firms spend all of their time competing in a game which has an ever-upward trend of table stakes issues (with attendant cost implications). They are essentially followers, spending their time playing catch-up with the innovators in order to re-level a playing field that has suddenly sloped against them. This is a Sisyphean exercise; no sooner have they emulated the leader that another wave of innovation sends them back down the slope again.

While the relatively low entry barriers to service innovation in the legal sector make this a viable approach, it is neither an efficient nor effective strategy.

Funding innovation

One of the challenges facing law firms in the current economic climate, which is unlikely to abate in a post-recession era, is how to overcome the apparent tension between client demands (in what is now most certainly a buyers' market) for simultaneously improved service levels and lower costs.

A 'me-too' approach to service strategy leads to resources being expended in ways which are suboptimal from a client's perspective and which increase the costs of the firm and erode its profits. Firms are constrained in their strategic freedom by assumptions about what clients value (and in what priority); they operate with a paucity of knowledge when it comes to understanding the world from the clients' perspective.

Most firms need to address this as a matter of urgency if they are to break away from the status quo. A radically improved understanding of the world as seen by the client (and how this world will change going forward) is fundamental to providing the insights that will inform trade-offs and where innovation investment should be focused.

Armed with these client insights, it is then possible to analyse both the current and any proposed service mix on the four dimensions that are suggested by a Blue Ocean approach, encouraging both rigorous analysis of the current mix as well as creative thinking to brainstorm new opportunities.

The four quadrants of the diagram in Figure 1 highlight the core issues which the strategy team must consider. Three of these focus on the current service mix and how this can be re-shaped, plus a focus on innovation to create new value.

Figure 1: Core strategic considerations

CREATE **Which service elements should be introduced which no firm currently offers?**	**RAISE** **Which current aspects of service should be enhanced to stand out as excellent?**
REDUCE **Identify the service factors which are necessary but not at the core of the value proposition. How far can they be reduced?**	**ELIMINATE** **What are the service factors that can be eliminated either because they are vestiges or as a conscious client trade-off for lower prices?**

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Changing priorities

It is necessary to reduce and eliminate as well as invest and invent. Ultimately, there is a trade-off to be made for all clients: if their objective is lowered costs (as well as increased value), there must be areas in which service can be accepted at a lower level (or even not at all). In the same way, for some aspects of service, super-performance will be required in addition to approaches which simply redefine the game.

In this respect, decisions made in two of the quadrants free-up the resources – financial, operational and human – to deliver the other two with aplomb and conviction, ensuring that the firm sets unique standards to create new opportunities.

Generally, within law firms, the thought of reducing service levels in some areas is wholly unpalatable. This is understandable. However, without a commercial approach, the consequence of not making these trade-offs will be increased costs to the business at a time of immense downwards pressure on pricing.

In such an environment, margins and profitability will inevitably be eroded, which is not sustainable in the long term. Faced with issues of this magnitude, it seems clear that the management team must be prepared to adopt an approach which involves reaping as well as sowing.

n a bull market, law firms were able to duck such issues. There was enough work providing sufficient levels of profit to make such difficult decisions avoidable – the service mix was just expanded yearon-year. In today's business environment, such side-stepping of the need to reshape rather than just increase is more difficult.

Valuable vs tradable

An obvious question is how to decide which aspects of law firm services should be created, raised, reduced and eliminated (see Figure 1). The 'create' area is self evident but, for the other three, there are choices to be made which are important given their potential impact; get them right and there is huge advantage to be gained but, as a corollary, a misjudgement may have far-reaching negative consequences for the business.

Market research using statistical techniques such as factor analysis makes it is possible to look at those aspects of service which actually drive satisfaction and loyalty, as opposed to those which are simply 'nice to have' but are ultimately tradable.

The insights arising from such an exercise reveal two important (and worrying) trends:

1. Much of what marketing is conceived to be at many firms falls full-square into the 'nice to have but ultimately tradable' category. For example, one would place much of corporate entertainment and many glossy communications materials in this group. This is not simply an issue of monetary saving but also of setting a wider agenda as to the core purpose of the firm and the ways in which it will go to market, win business and develop clients.

2. Realising the potential upside will require significant and far-reaching behavioural changes

in the lawyer base, and the partnership in particular. Through better teamworking, improved communication, enhanced project management and increased commerciality, most firms can achieve a step-change in performance. Research consistently illustrates that this is both the biggest source of potential advantage and the most challenging hill to climb.

Such findings imply a need to fundamentally reshape the way in which many firms have gone about developing their client relationships.

The value curve

Having got to the point of ensuring that the firm has the appropriate level of baseline service delivery, the strategist then needs to consider ways in which reshaping and innovating can be used to redefine his firm's markets. This is achieved by introducing factors which do not simply turn up the competitive heat but instead create unique approaches and levels of client value that cannot be matched.
The value curve is a tool which allows a firm's leadership team to visually determine where their strategy fits in relation to close competitors and to identify opportunities for innovation.

As a communication tool, it also ensures an excellent understanding of the choices that have been made as a result of the strategy process, why trade-offs were necessary and how the firm will position itself in future to compete effectively.

There are three stages to creating a value curve:

1. decide on the most important factors which affect competition;
2. consider how current (and potential) competitors are investing and performing to drive these competitive dimensions; and
3. create a value curve which illustrates how the competition is positioned and how your firm will invest to compete going forward.

Analysing competitiveness

How might this work in practice? Let us take a simple and hypothetical example. Consider a group of firms in close competition. Their respective value curves are illustrated in Figure 2.

To create a chart such as this, a number of key factors (both current and proposed) that drive competition will have been identified and tested with both current and desired clients. These are the things which are the driving forces behind client choice and on which firms must focus if they are to grow their business. These are arranged along the horizontal axis of the chart.

Most are self-evident in terms of their meaning, but two require further explanation.

Commercial approach relates to how the firm runs its business and its relationship with clients, suppliers and other stakeholders as opposed to the commerciality of the advice that it provides to those clients. From a client perspective, this will include a willingness to proactively enter into alternative fee arrangements and to seek commercial opportunities to exploit the relationship further. For the firm, such a commercial approach will allow it to engineer services to improve efficiency and deliver the holy grail of reduced client fee levels whilst growing profits.

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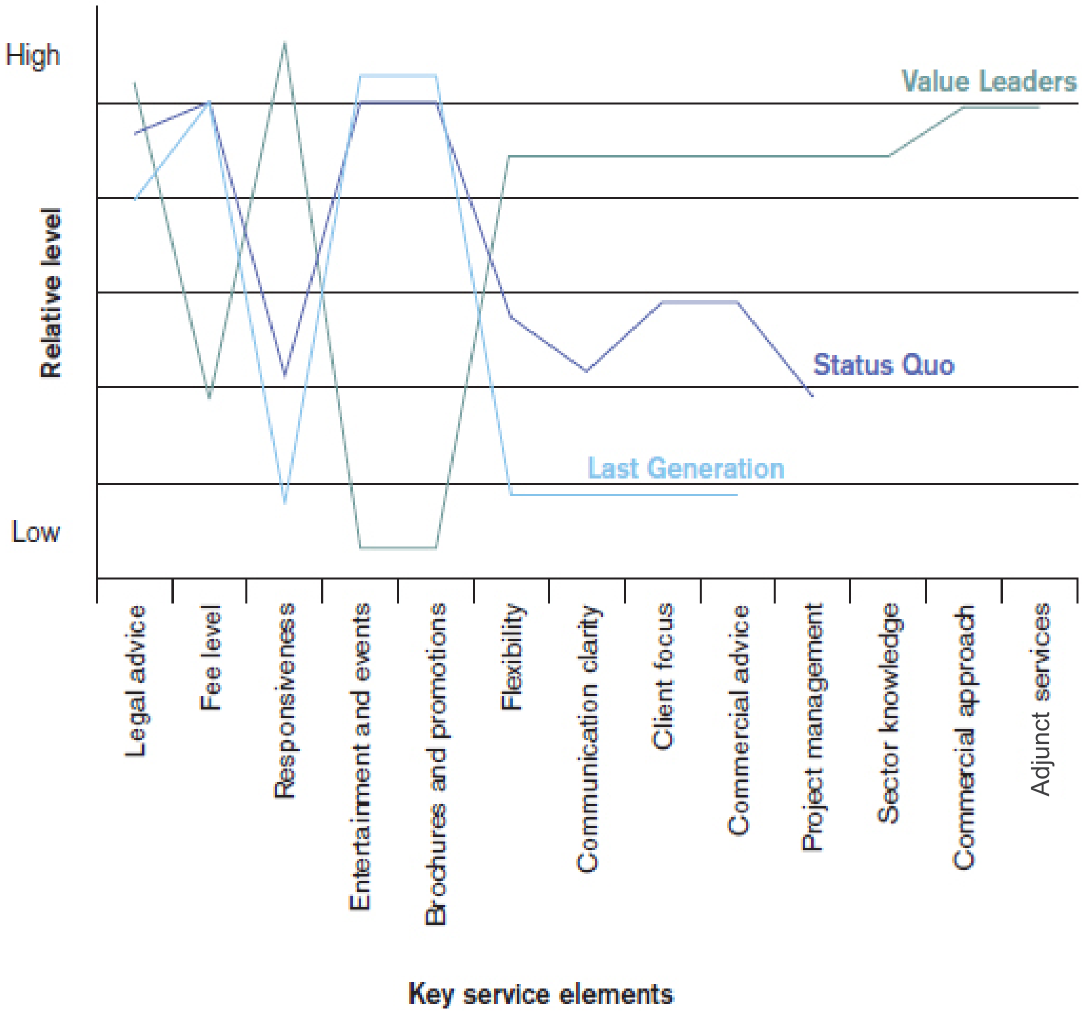
Figure 1: Value curves in the legal sector



Adjunct services describes those valueadded elements which are not directly related to the legal process but which enable the client to prosper. These could include, for example, access to the law firm's business research function or shared soft skills training.

It should be clear to any observer that, within a particular competitive group of firms, the quality of legal advice will not differ markedly. The significant advantage comes from the service wrapper that is placed around this core advice: this is the area where clear blue water can be created between firms.

The vertical axis represents the relative level of performance of each firm on the key dimensions. It can be seen that, in this example, the value curves are quite different for the firm operating as a laggard, the business which is performing 'in the pack', and the value leader.

The value leader

The curve of the value leader is radically different to the other two firms in Figure 2. While the status quo firm has some of the characteristics of service improvement, these are actually little more than incremental changes from the curve of the last generation's practice. This demonstrates slow evolution rather than a revolutionary change of approach.

The value leader, by contrast, has made radical decisions to downgrade some aspects and divert focus into new areas of service which set it apart from the competition on issues which are most relevant to the client.

While some of these factors will be genuine innovations, it is also notable that value leaders typically look across comparable industries, observe how leading businesses add value, and explore the transferability of these practices.

In truth, large tracts of the legal services industry have much to learn from other parts of the service sector and, even closer to home, other professions. There are significant opportunities for value innovation to be gleaned from such transferable practices.

Analysing service gaps

It is also quite feasible to use a value curve model as a tool for gap analysis. By comparing one's own value curve with those of the firms that lead your competitive set, it is relatively easy to see where the differences occur.

Closing these gaps is an option, but so too is looking for innovative areas that can reshape the value curve in your favour. Indeed, being selective about which gaps to choose to close is a principle of this approach.

There are a number of firms that have achieved much over the past 15 years by adopting approaches which challenge the assumptions about how a law firm operates. They have recognised the areas in which they must compete but have not sought to simply mirror the current players in the market. They have been prepared to innovate in order to redefine the competitive landscape.

Examples of such thinking include the development of the DuPont model, in which Eversheds partnered with its client to create a new approach to service delivery, and Flint Bishop's pioneering creation of a white-goods approach to providing private client services through affiliate marketing.

Most recently, CMS Cameron McKenna has hit the headlines with an apparently radical move in offering its clients fixed-fee, no-questions-asked arrangements on the basis of a number of qualifying criteria. These are based on a significant proportion and range of the client's work being awarded to the firm, exceptionally prompt payment terms and the day-to-day account management being handled by an associate rather than a partner. This appears to have the qualities of innovation and trade-off that were discussed earlier, but it remains to be seen whether it will be successful in creating a blue ocean opportunity.

The concept of value innovation requires that two criteria be met – that the new offer be innovative and that the client perceives immediate value from it. In this sense, innovations which push the envelope too far and are seen by clients as high risk or which are before their time would not qualify. However, what is clear is that innovation is on the agenda as never before in the profession.

Andrew Hedley
Hedley Consulting
andrew.hedley@hedleyconsulting.com
+44 (0) 870 4862115

Hedley Consulting advises the leadership teams of professional service firms on business development and change strategies that deliver immediate and sustainable improvements in business performance.