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Use strategic focus to dominate a market

High performing firms share one characteristic. They all have focus – they know what they are in business to do and not do. Their unwavering focus is expressed through a defined group of target clients or industries, legal practice areas, jurisdictions or market places.

Focus matters and plays a key role in improving overall business performance. Decisions about the markets, services and clients to focus on are of huge strategic significance. They set a direction of travel for the firm from that point forward and carry implications for inherent profitability. While firms can play with the metrics, baseline profitability varies between segments in a structurally defined way.

Firms operating in high risk, high value and high price environments will have a greater inherent profitability than those which are dealing with more day-to-day work. Successful firms within each segment create significant levels of partner profits, even if their partnership structures fundamentally differ. It is the middle-market firms and the generalists which are most challenged in their ability to create a business model that can deliver sustainably high levels of profit per equity partner.

Value of focus

The benefits of focus are clear and compelling. For example, it allows a firm to align its operational structure to improve efficiency and deliver profits at a particular price point. Rather than attempting to configure itself to deliver across a range of disparate and often conflicting business models, a focused firm can excel at adding value in its chosen markets.

This same clarity of purpose creates unambiguous and targeted messages about a firm in both its client and recruitment markets. It does not need to fudge its communications to keep disparate constituencies on board. Rather, the firm can hone its message to attract the best clients and people without fear of alienating others – something which is a constant

concern within broader-coverage firms.

Investment decisions and the allocation of scarce resources is the bane of many management boards. Disparate yet worthy initiatives compete in ways which can often be dissonant, with cross-contamination meaning that everything is sub-optimised. A focused approach allows investment options to be clearly evaluated and prioritised. This, in turn, means that synergies can be maximised whilst inefficiencies are identified and removed. The focused firm has the best opportunity to realise the full potential of its investment decisions.

“A focused approach should not be confused with a singular one”

Once you know what you are in business to do, the speed and quality of decision making can be improved dramatically. It is faster because questions which are off-centre are no longer asked (as they are not deemed relevant); and quality is improved because, by focusing on a smaller number of decision areas, knowledge is deeper and processes are more effective, leading to better outcomes.

Law firms are people businesses, but an unfocused firm can have huge difficulties in attracting, developing and retaining talent. Learning and development (L&D) needs vary significantly, career aspirations may be divergent and salaries operate on different baselines.

By contrast, a focused firm offers certainty to its people; clarity of career development; a singular and high-quality approach to L&D; confidence that a particular practice will not fall out of favour in the next strategy review; and comfort that one's area of expertise sits centrally within the firm's strategic direction.

Through a targeted approach, dominance of a specific market can be achieved. This is important because a market leader will tend to command a price premium and/or lower cost base compared to follower firms in the same arena.

No firm should, or could, seek to dominate the whole legal services market; it should not attempt to reign supreme in everything from commoditised to rocket-science work, nor could it compete on both lowest cost and premium priced products. An analysis of successful firms in distinct market segments highlights the need for a customised operating model. Rather than attempting to dominate all markets, a firm with focus will seek to command a leadership position in just one (or a very small number of markets).

Managing risks

An oft-heard criticism of strategic focus is that it is high risk – placing all of one's eggs into a single basket. Managing such strategic risk is important. A focused approach should not be confused with a singular one, nor should it suggest that counter-cyclical practices are abandoned.

Focus carries with it issues of risk and sustainability should a market diminish or die completely. However, markets tend to evolve rather than simply perish. A firm with a deep knowledge and good horizon-gazing capabilities is best placed to spot such disruptive forces and respond to them – more so than one which has spread itself superficially across a large number of fronts. In this sense, the focused firm puts itself in the best position to respond and adapt to market developments.

Be clear about where your firm's focus is and ensure that you build your strategy on it in order to maximise your opportunities for a profitable and sustainable future. ■

Andrew Hedley has been advising law firm leaders on strategy and change management for more than 15 years (www.hedleyconsulting.com)