

# Growth matters

## Executive summary

### Set your vision for growth

**How do you go about setting the right growth strategy for your firm? And what are the potential pitfalls to watch out for?**

With a practical focus on tools for growth, Macquarie Relationship Banking's second series of Legal roundtable discussions generated some valuable insights among the participants, including 50 partners from small and medium sized law firms.

Whether firms were choosing to grow organically, or through acquisition or merger, the key message was to start with a vision. Successful growth strategies require a commitment from all partners as to the direction the firm is taking.

### Approach growth with caution

During uncertain times, organic growth is seen as a safe option. But growth aspirations may take longer to achieve. Regardless of a firm's growth strategy, it is a long term approach that requires planning and commitment from the whole firm.

There are certainly opportunities – many clients are questioning the cost of legal services and are looking for better value, providing smaller boutique firms with new business.

But there are also challenges. Many global economies are still struggling, and locally retail sales and discretionary spending have softened. At the same time, wages pressure and staff turnover is starting to re-emerge in legal firms which can impact growth.

So where do you begin? Rob Patterson, founder of Parkin's Lane Consulting Group and former Chief Operating Officer of a fast growing national law firm, shared his experience and stimulated some interesting discussion.

### Step 1. Define your vision

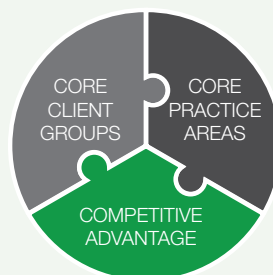
Defining a coherent and compelling vision is the first step to achieving successful and sustainable growth. Without a clear strategy, the firm will lack direction and it runs the risk of delivering poor returns. Or worse, having a negative impact on your profitability and reputation.

But don't spend time and energy creating a long-winded motherhood statement. Work on a set of short, punchy bullet points that set out what your firm will look like in five to 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.



### Step 2. Narrow your client focus

The legal needs for a sole proprietor are quite different to those of an ASX listed company. There are four ways to segment your client groups:

1. **Size** – high net worth individuals, small businesses, national companies or large multinationals
2. **Sector** – private, not for profit, commercial or government
3. **Geography** – local clients, state based, national or global
4. **Core industries** – such as finance, real estate, insurance, retail, property

Once you understand your key client group, you can expand on it by applying the same skills to adjacent areas, for example property developers and property trusts.

#### Partner insights

*“During the recent financial downturn, we took whatever work walked through the door. But that's not really great for the long term, it doesn't work to our strengths.”*

*“We need to get more engaged in federal government. 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.”*

### Step 3. Align your client needs with your practice

Do your core practice areas relate to the needs of your core client group? If not, it is time to put them aside and focus on the gaps. Look for areas that are most valuable to your clients, or for skills they are looking elsewhere to fulfil.

Expand 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 go deeper into a specific area of expertise. For example, if you are currently practising in property, look at adding specialist skills in leasing, planning or management rights.

#### Partner insights

*“We've now realised that bringing in a new hire only works if we can cross-sell between our client groups.”*

*“After moving into modern premises with new technology, 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.”*

## Partner insights

*"We're looking into key area gaps with our existing clients, because our relationships are already strong so it's easiest to start by extending them."*

## Step 4. Pick one competitive advantage and stick with it

Running with a me too strategy simply won't cut it in today's competitive environment. What is your competitive advantage? Why do you win work? What keeps your clients with you?

There are many ways to build a competitive advantage. This model was initially developed in the US by Michael Treacey and Fred Weirisma. It highlights three simple ways to determine a point of difference.

### 1. Process or organisational excellence

For example, a firm with streamlined systems 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 with a focused group of clients, and really understanding their needs in all areas. Becoming a trusted partner, where clients don't make a move without talking to you first.

These advantages contradict each other, so don't imagine you can be the best in all three. 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.

## Partner insights

*"We find the cost of getting our processes right is a challenge. But when we do we are really able to solve problems for our clients."*

*"By getting out among our clients, we're going to develop our relationships more deeply, and really understanding what they do."*

*"We've recently opened another office in the CBD to network and build better relationships. There's now a strong rivalry between the two offices, but it seems to be working positively."*

## Set the vision and growth will come

Once you define what you want to be, the opportunities for growth will present themselves.

If you are confident with your core client groups and practice areas, growth will happen organically. If you recognise your need to build up a certain practice area, then a lateral hire will fuel your growth. If you realise you need to expand geographically, a merger may be the way to go ahead.

Likewise, refocusing on your core clients will naturally attract more of the same clients and better referrals. Developing a cross referral process is an important part of any growth strategy, but it comes down to trust within the firm. Think about the responsibilities of each party in terms of sharing information, prioritisation of work and quoting.

It is also important to know when it is time to let a client go, and it can take courage to actively manage clients out of your database. However, you may need to do so to maintain your core focus. Look at which client groups are profitable, and focus on the ones you enjoy working with.

## Retaining and gaining talent

How do you motivate your team to win new clients and manage relationships?

It is important for staff to feel they are part of a team and involved. Start by bringing them into client meetings. As long as the partner maintains the primary relationship, there's little risk and they will develop valuable business development and relationship management skills.

There are also important considerations when your growth strategy involves a lateral hire. Bringing in a new team member at a certain level may undermine the way your current team feels valued. And when you do hire, cultural fit is essential. Think of it as a mini merger in terms of the due diligence you need to carry out.

## Ready to grow?

Your Macquarie Relationship Manager can provide valuable insights throughout your growth discussions, from discussing your vision to forecasting the financial implications of your strategy, and how best to fund them.

They will be happy to discuss your ideas for growth on a confidential basis, and will bring a depth of experience and knowledge of the qualitative and financial levers to assist your firm to grow profitably.

**For more information visit [macquarie.com.au/legal](http://macquarie.com.au/legal)**

## Partner insights

*"Lateral growth can't happen on its own, as the staff you bring in are older and you'll end up with a firm full of elderly lawyers. Fast track the people who are valuable and talented."*

*"Not all lawyers want to be partner. And money is one factor, but it's not everything."*

*"Equity partners have grown the firm from the ground up, but bringing in salary partners can create a conflict if they don't understand what we really stand for."*

## Planning for growth

All growth needs to be funded, so think about your strategy as early as possible. Your bank can be your partner in your balance sheet, and 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 horizons. What will be your additional working capital requirements?

For example, a firm with an asset base of \$3 million and average lock up of 150 days, forecast to grow by 10 per cent each year, will need an additional \$400,000 in working capital over a three year period.

This money can only come from debt, retained profits or new equity partners. If you don't plan ahead, expectations for profit distribution may not be met, and this can cause further stress on your strategy.

## Summary

**We would like to thank our round table participants for their frank discussions on these important issues.** If you need help getting discussion going among your partners, an external perspective may help. It is important for everyone to agree on what defines success for your firm, and to commit to that vision. And most importantly, plan ahead before you get growing.

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