

Strategic Planning for Law Firms: A Practical Roadmap **2nd edition**



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Executive summary

At its core, the purpose of strategy in any for-profit organization is to position the firm to achieve better and more sustainable returns than the competition. In other words, the purpose of strategy is to capture a sustainable competitive advantage. Doing so requires the firm to satisfy major stakeholders (primarily customers, but also knowledge workers, shareholders, and others) over both the near and longer term. Ultimately, business strategy is about winning in competitive markets.

The origins of business strategy can be traced to the immediate post-WWII era and Peter Drucker's 1946 book, *Concepts of the Corporation*. Drucker gets to the heart of the issue, making the following point:

“A company’s primary responsibility is to serve its customers. Profit is not the primary goal, but rather an essential condition for the company’s continued existence. There is only one valid definition of business purpose: to create a customer.”

In other words, if an organization cannot satisfy its clients in a superior manner over a sustained period, the rest of its mission is doomed – there will be no profits for the shareholders, no wages for the work force, and no future for the firm.

Business strategy really began to flower in the 1960s, when Bruce Henderson founded the Boston Consulting Group (BCG). Other consultancies already existed, but BCG cemented the idea of business strategy. The premise that tools and models could directly influence business performance gained legitimacy during this period. Firms like BCG, Bain & Company, McKinsey & Company, and Arthur D. Little all contributed to the proliferation of useful models and tools. Thus, today most managers understand things like economies of scale and the experience curve, product life cycles, and the various matrices that consultants trot out to analyze markets and businesses (many of the most pertinent tools and models for law firms are covered in-depth in this book).

More than perhaps any consultant, academic, or management guru, Michael Porter has provided the central definitions for what we know today as business strategy and strategic planning. In his seminal 1985 book, *Competitive Advantage: Creating and Sustaining Superior Performance*, Porter began with the supposition that “Competition is at the core of the success or failure of firms... Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.”

Porter highlighted three so-called generic strategies in *Competitive Advantage*:

1. Cost leadership (i.e. capturing customers on the basis of price);
2. Differentiation (i.e. capturing customers on the basis of offering unique value); and
3. Focus (i.e. targeting narrow markets in which your firm has an advantage).

A decade or so later, he refined this thinking. Specifically, Porter’s landmark *Harvard Business Review* article entitled “What is Strategy?” sharpened the definition. Specifically he noted:

“Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.”

Porter makes the further point that simply pursuing the low cost position is not a source of sustainable advantage – someone is always willing to go lower. In the legal marketplace we see this manifest in many ways – the continual erosion of rates and margins in insurance defense, the increased disaggregation of legal projects and the related rise of alternative legal service providers, and the standardization of transactional and other documents (e.g. simple wills, loan documents, etc.).

The increasing competitiveness of the legal industry – both for people and for clients – has led some to look for so-called “blue oceans”. W. Chan Kim and Renée Mauborgne, professors at INSEAD, analyzed strategies across hundreds of organizations and described an approach to strategy that focused on pursuing uncontested markets (i.e. blue oceans), rather than deeply competitive markets (i.e. red oceans). Others have turned to business model innovation, using Alexander Osterwalder’s *Business Model Canvas* both to scrutinize existing business models and to create

business models for ancillary businesses and/or novel practice areas. Discussion of both Blue Ocean Strategy and the Business Model Canvas are new in this edition.

Theory and history are all well and good, but how does this really translate in a law firm environment? This report provides readers with a solid grounding in the key elements of a strategic plan (which apply both at the firm and at the practice group level). Namely, a well constructed strategic plan includes:

- A concise and compelling vision and mission;
- A well articulated and focused set of primary goals;
- Strategies that allocate resources toward achieving those goals; and
- Related implementation plans that prioritize near term action and highlight meaningful measures and milestones that track implementation.

Further, this report provides the reader with a workable, real world strategic planning process they can use in their own firms. That process includes:

- An approach to developing a strong analytical foundation and framework – providing an objective, factual assessment of the internal and external environment facing the firm;
- A means of defining the firm’s strategic direction – enabling the firm to articulate and agree upon its direction including:
 - What the firm (or practice group) aspires to become over the long run; and
 - What position(s) the firm or practice intends to occupy (i.e. what it will be known for).
- A means of developing action oriented strategies – enabling the firm (or practice) to agree upon the sometimes difficult trade-offs among its strategic alternatives, enabling it to focus resources on achieving its aspirations and desired market positions; and
- An approach for identifying near term action plans (and prioritizing those action plans) so that individuals are directly engaged in (and are accountable for) roles that put the strategy into operation on a day-to-day basis.

Readers will find the remainder of this book organized into the following major sections:

- **A strategic planning process roadmap** – providing a detailed guide to best practices for strategy development and strategic planning in a law firm context;
- **An expanded review of strategic management tools and principles** – providing a pragmatic overview of the most important and useful analytical tools and strategic management principles that drive winning strategies for law firms, including:
 - Portfolio analysis tools and techniques;
 - Product/service life cycle management;
 - Competitive intensity analyses (the so-called five forces);
 - Scenario planning techniques;
 - Disruptive innovation principles;
 - Co-creation principles;
 - Blue Ocean strategy development;
 - Business model canvas; and
 - Balanced scorecard tools.
- **A discussion of strategic issues facing law firms** – providing a guide to the universal challenges and question law firms face in the context of strategic planning, including:
 - People issues;
 - Knowledge management;
 - Project management;
 - Value drivers and pricing (fees in the context of client relationships);
 - Profitability and financial management;
 - Succession management; and
 - Outsourcing and smart-sourcing.
- **Case studies** – highlighting real world examples of how the process has worked in large, mid-size and boutique law firms – updated to reflect how firms are coping strategically with the post-crash, flat demand environment we have seen over the past five years.

Readers of the previous edition will find much new to explore in the second edition, including a thoroughly updated discussion of the core strategic issues facing law firms; refreshed case studies that outline real world responses to current strategic issues, strategic planning challenges, and strategy implementation imperatives; a deep dive into applying “Blue Ocean” strategy in a law firm setting; and a discussion of how the “Business Model Canvas” can be used to rethink practice areas, pricing, and ancillary businesses.

About the author

John Sterling is chief marketing officer at Sterne Kessler Goldstein & Fox, a leading IP specialty firm based in Washington, DC. He is also the founding partner of Sterling Strategies, LLC. Prior to founding Sterling Strategies, John was a founding partner at Smock Sterling Strategic Management Consultants. He has over 30 years of experience in strategic management and market research.

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