

It's a relationship business isn't it?



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Sally Dyson explores whether it's a mantra to live by or a shibboleth to be knocked down?

In the cynical 'Noughties', an era which has seen firms having to compete for business via reverse e-auctions and other horrors, the long held credo that professional services are fundamentally relationship businesses has come into question. My own belief in the power and importance of relationships has been unwavering but, preferring evidence based decision making, I regularly road test the theory with buyers of legal services. My discussions with general counsel, bankers, private equity executives, procurement professionals and law firm partners have confirmed that relationships remain at the heart of legal business. As one general counsel said to me, "It is all about relationships and about understanding my business and what I need". Whilst rooted in the legal services sector, these findings can provide insights for other branches of the professional services industry too.

Testing the theory

I set out to explore three issues:

- Is price the primary factor in law firm selection processes?
- Are legal services now viewed as commodity items and does this matter?
- Do buyers of legal services care about relationships?

This article is based on a mixture of interviews and informal chats conducted over the last three years. This is not formal research with scientific methods or statistical significance but does reveal a range of informative client perspectives.

Money, money, money

In the current economic climate, professional fees have certainly come under the spotlight. The last few years have been characterised by strenuous cost cutting on the part of law firm clients who themselves have been faced with having to 'do more with less'. The picture for 2012 is less clear cut, leading the editor of *Legal Week* to refer to the state of the market as "oxymoronic" as some firms have seen both revenues and profit per equity partner (PEP) rise whilst others have experienced profit falls of more than twenty per cent. A survey of chief legal officers published by Altman Weil in November 2011 indicated that client budgets and external spending are once again

on the rise which will be very welcome news for law firms and other professionals. However, the chief legal officers surveyed still maintained that controlling costs would be their number one priority for 2012. This was echoed in comments made to me by one general counsel who said, "We are looking to drive down rates all the time." It therefore seems that clients will continue to try to extract cost savings from their advisers for the foreseeable future. The trend towards engaging procurement professionals in the law firm selection process has of course compounded the issue for firms. A procurement manager admitted to me, "We are here primarily to save money".

However, it would be wrong to construe an understandable focus on cost saving as the over-riding factor in the law firm selection process. Buyers of legal services were at pains to point out the importance of 'value' rather than 'price'. As Warren Buffett, the renowned investor and industrialist has written, "Price is what you pay; value is what you get". As one head of legal noted, "I won't choose a firm just because it is the cheapest. That would be a false economy." That will come as a relief to many practitioners. As one partner in a leading international law firm told me, "If the relationship is totally cost driven then it falls down."

Is commoditization eroding relationships?

Once a service has been defined as a commodity, the identity of the provider becomes fairly unimportant and competitive forces exert downward price pressure in an unenviable race to the bottom. Many professionals fear that technological advances such as automated document assembly, free or very cheap online advice and open sourcing (a kind of Wikipedia for professional services) will usurp firms' traditional functions and rob them of business. There is no denying that some previously bespoke work has become commoditized. In the legal sector, this is particularly noticeable in consumer work such as conveyancing. However, the march of technology is also making in-roads into previously premium areas of practice.

In my view, there is no way of turning back the tide. The much more productive philosophy which has been very successfully espoused by some firms is to embrace progress and make a virtue out of an apparent vice. Linklaters for example, through its Blue Flag service offers a Term Sheet Generator service to "help bankers produce term sheets more accurately and more quickly" themselves. To many law firms it is still unthinkable that they should de-mystify the art of legal practice by admitting that it is capable of standardisation. No-one doubts that the likes of Linklaters will be able to continue to charge premium prices for their cutting-edge, bespoke services despite creating a sub-set of more affordable product offerings. If anything, such services bind clients closer to those firms. One general counsel starkly remarked, "We couldn't survive without their value added services" indicating just how clients can become thoroughly dependent on incredibly valuable, cost effective solutions provided by firms in addition to their core advisory, transactional and dispute resolution roles. As Charles Darwin so presciently observed over a century ago, "In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment".

Do clients care about relationships?

My answer is an emphatic "yes" - borne out time and again by client comments such as this from a private equity executive, "Having a common understanding is pretty important for us and that only comes over time."

There will be exceptions to every rule. David Maister, the well-known law firm management guru, in his amusingly titled book *Strategy and the Fat Smoker* has drawn a figurative analogy between firm relationships with clients and romantic relationships. He has noted that "People say that they want the benefits of romance, yet they still act in ways that suggest they are really interested in a one-night stand" by which he means taking things one transaction at a time. His analysis is that not everybody is ready for the commitment and mutual obligations of a relationship and that a relationship cannot be foisted upon a client. It takes two to tango.

I was particularly interested to explore the desire to form relationships in the banking world given the much publicised penchant of banks for imposing gruelling auction and procurement processes on their firms. When I broached this topic specifically with in-house counsel at banks, many conceded that they viewed "legal advice as a homogeneous commodity". However, they hastily pointed out that despite this, their relationships with law firms were very important to them. They recognised that "lawyers massively add value" on transactions and one went so far as to say that he specifically hand-picks the law firm associates who will work on his matters because he wants to build the best team to work consistently with the bank. Another general counsel opined, "With law firms, it's not just the advice but how you feel about it. You need lawyers that score well both on technical advice and service provision". Clients will only choose lawyers that they feel positive about working with.

Conclusions

It is tempting for private practice lawyers, faced with constant demands to reduce their fees and habitual requests to re-tender for business to believe that client loyalty is a thing of the past and that relationships no longer matter to clients. Whilst acknowledging the realities of operating in today's highly competitive, buyers' market, private practice lawyers and, by implication, other professionals, can be reassured that time devoted to fostering positive, trusting relationships with clients will pay dividends in terms of both client acquisition and client retention.

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PSMG EDUCATION...



Maintaining your marketing study momentum



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You and your team are back from your summer break, Olympic fever has died down (at last!), the business is fired up and raring to go for the rest of the year and you've probably put your thoughts of marketing study to one side for a couple of months. How do you maintain momentum and get back on top of your studies or even renew your resolve to make that start you've been promising yourself?

Like any project, the important first step is to set yourself some targets, put together a plan (or dust off an old one) and include some achievable milestones along the way. If you're already in a study programme then hopefully you're enrolled in another course or have an exam on the horizon, so it's just a case of thinking carefully whether you're on track to hit those deadlines and appraise honestly what you need to do if you're behind plan.

If you're considering making a start now is a great time to appraise your options. If you're considering the Chartered Institute of Marketing's professional services marketing qualification, brought to you by Cambridge Marketing College and PSMG, the great news is there are different study entry points and a range of study options. Whether you're new to marketing or have some experience, prefer to study at home or like the discipline of a regular evening class, there is an option to suit you. What's stopping you?

If the problem is you facing a mounting backlog of commitments at work, with colleagues and customers piling projects onto your desk they really should have been focused on over the summer too, it's always worthwhile taking stock of how your work and studies can feed off each other. Most of the modules in the CIM course are assignment based, which more often than not can be related directly to challenges you face at work. In fact, many of the best assignments I've reviewed with students have been just that. The rigour and framework an assignment gives you can deliver a great project outcome in the office. On top of that, your study work provides you with the marketing tools and techniques you need to differentiate yourself as a great marketer, not just an enthusiastic and hard working team member.

There is always the temptation to push back the commitment to improving your marketing knowledge, especially at this time of year with a busy run-in to the end of year always looming in a marketer's diary. "I'll pick it up in the New Year" is a frequently heard response. But surely you want to get ahead, push yourself and make a statement to your boss (or your CV!) about being a better marketer, so why not do that now?

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