

FIRM STRATEGY: UNDERSTANDING INDUSTRY DYNAMICS

Let's look at what is now happening in advanced education and specifically with the long revered MBA degree as an example of what is happening within our own profession.

Last year about 87,000 Americans wrote their Graduate Management Admission Test (or GMAT), an aptitude exam generally required as part of an application to MBA programs. That compares with 127,000 in 2010. Applications from students have been in a decline following the economic crisis and competition for a smaller pool of students has been raging among the hundreds of MBA schools across the continent. This rampant marketing and competition for students has raised questions about what a sustainable model for MBA programs might look like.

The generalist MBA, wherein students select a specific discipline, be it finance, operations or marketing in which to specialize, is being seen to be outdated such that schools are finding that they increasingly have to differentiate themselves. And finding ways to meaningful differentiate usually means asking the client – in this case those who hire the end product of graduate education mills, to find out from them what they need. The response? Increasingly corporations are expecting their MBA graduates to indeed specialize, but no much in traditional disciplines but in specific industry sectors – like mining, retail, health, real estate and so forth.

The world of management education is changing. General programs are not good enough. As one business dean expressed it, “this shift will mean an end to the conventional ‘cookie cutter’ MBA, where all students learned the same basic business skills. The two-year MBA with some opportunity for industry-specific specialization is becoming the gold standard.”

Let's compare what is going on in management education

with what is going on in the legal profession. Today many firms would assert they have embraced having a smattering of industry groups in their firms. Nevertheless, it is interesting and informative to look at what some of these groups may actually signal to clients about the firm's industry knowledge and competence. For example:

■ **It is not what you call the industry, it is what the client calls itself that is most important.**

When you think about the various options available for stimulating revenue growth, one of those options is driven by the preponderance of various industries that are located in your particular market footprint. That said, I am always surprised by the lack of knowledge some professionals display in understanding which industries often have a prevailing influence in their particular locale. In fact, in a number of recent meetings (after having done the required homework myself), I've asked partners to tell me, "What particular industry concentration or 'industry cluster' is your city, region or state focusing attention and fiscal resources on developing?" A short period of stunned silence is then often punctuated with some wild guesses and sometimes a few manage to guess correctly.

When we think about industry clusters we naturally imagine the car manufacturers of Detroit, computer makers of Silicon Valley, aircraft manufacturers of Seattle, financial services in New York, and the movie makers of Hollywood; but industry clusters are more than just a collection of companies in the same industry. Industry clusters are actually a geographical proximate group of interconnected companies with associated institutions in a particular specialization – all linked by networks.

In other words, while some locality can have an industry group, for example the Napa Valley vineyards, what would make this group a

cluster would be the presence of upstream and downstream specialists. Using the example of the Napa Valley vineyards, this would include upstream manufacturers and suppliers of herbicides, pesticides, and irrigation, harvesting and processing equipment – while downstream would include manufacturers and

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suppliers of winemaking equipment, bottles, labels and corks. The associated institutions would then include government departments (including export), educational and research organizations, plus other related industries like tourism and hospitality.

The challenge that arises from all of this can often manifest itself in really understanding what specific industry you are really working in and how you are communicating your expertise to the market.

For example, in one particular firm I was recently engaged in working with, as I examined the various clusters in their market, I noticed that one of the top three industry clusters was "Photonics" which included data transmission technologies, laser processing and spectroscopy analysis. When one examined the firm's web site you could not find a single mention of anyone having done work in the "Photonics" industry. When I raised this point later in our strategy sessions, I was informed that the firm had a long history of serving a number of major companies in the . . . "Optics" industry.

Now, you're welcome to call it the Optics industry, but if I, as the client, call it the Photon-

ics industry and am proud of being an active member of the New York Photonics Industry Association – you might see how you and your firm could be perceived to be irrelevant!

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just missed opportunities for marketing your competence into other states like Michigan, Colorado, Arizona, Florida and the Carolinas where there are other active Photonics industry clusters. But then I suppose you could explore prospects in New Mexico, the only state that I could identify that had an active "Optics" Industry cluster.

MAKE NO MISTAKE: what label you attach to your industry group matters.

■ **As all industries eventually mature they naturally fracture into multiple sub-industries.**

Some years back I had the opportunity of working with a Technology Practice Group to help the partners develop a strategic plan and direction for growth. Not too far into what had been scheduled to be a four-hour working session, I discerned that five of the partners served software developers; three others focused much of their attention on cable television companies; four were developing expertise with companies in the digital publishing space; and the remaining five spent their professional time working with telecommunications operations. Each of these were operating under the same marketing umbrella

(Technology) but were actually sub-groups in entirely different industries.

News Flash: You cannot develop a strategic plan for an industry group if you don't all serve the same kind of clients.

Today, this same situation is true with numerous industry groups. To be provocative – I would strongly advocate that there is no such thing as a Health Care lawyer!

A blog post that got a fair bit of attention recently announced: *“Want to Expand? 5 Hot Legal Practice Areas to Consider for 2015.”* It advised lawyers that: *“Changing technology, government policies, and legal environments mean that there are more opportunities than ever to expand your practice into new areas. Here are just a few ideas to get you started.”* And number one amongst it's hot areas to consider was . . . Health Care.

The way some firms define and describe their industry groups is really quite interesting. If you look at Health Care by way of example, and examine various law firm websites, you are likely see a description that reads something like this:

We offer clients the advantages of both a concentrated practice in health care law and a business firm with broad and varied areas of experience. Our Health Care practice enjoys an outstanding reputation for its knowledge in health law and its leadership in the health law community. Our strength lies in the ability to understand and keep pace with the numerous changes in the health care industry and to work creatively with clients to achieve workable solutions. We offer a comprehensive approach with many inherent advantages. Because we are familiar with how health care is delivered and financed, we can respond quickly to the business and financial needs of our health care clients and to the practical realities they face.

Our experience encompasses a wide range of matters of concern to the health care industry, including:

*Business Transactions
Integrated Delivery Systems
Contracts
Managed Care Relationships
Health Care Provider Financing
Restructuring and Reorganization
Tax Advice for Tax-Exempt and For-Profit Entities
Antitrust
Fraud and Abuse
Medicare, Medicaid, and Third Party Reimbursement
Employment Issues
Credentialing and Accreditation
Certificate of Need
Patient Care and Operational Issues
Medical Malpractice*

It sounds both comprehensive and convincing. The only small problem is that Health Care, as an industry, has fractured into numerous distinct sub-industries (witness my earlier example with technology) as it has grown and matured, each of which is comprised of companies who believe they are unique.

Take for example the industry of professional services and the sub-industry known as the legal profession. If some service provider held themselves out to be the renowned expert in professional service firms, your first question would be, “Yes, that's fine, but what do you specifically know about law firms?” Then if that same renowned expert began to tell you about how they employed their smarts in marketing to the advantage of some major accounting firm, even though you might admit that the tactics were equally applicable, you would still inquire as to what experience they have had serving a law firm like yours. You reject any notion that being an expert in an industry as broad as professional services, or even marketing leadership in the accounting sector, is sufficient.

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As sellers, we appear to be quite content with telling the marketplace that we are Health Care lawyers with little regard for what our clients are looking to buy. And in this instance the Health Care industry is fragmented into dozens of sub-industries. Therefore those lawyers who develop a specific expertise in areas like personalized DNA-based medicine, mobile health appliances, stem-cell bio ethics, e-health information systems, or lithotripsy services and then effectively market that specific expertise will become the go-to providers and achieve a significant strategic advantage over those attorneys who simply claim to be health care lawyers.

MAKE NO MISTAKE: in most industries you need to be very specific about the sub-industry that you are targeting to serve.

■ **There are some areas of opportunity that initially defy simple industry categorization**

One particular area of emerging opportunity is in what is being categorized as the “Internet of Things” or IoT.

Most often, we hear about IoT in the context of wearable devices: things like the Fitbit that promise to improve health and wellness, or more fully featured devices like the Apple Watch and Google Glass that also extend such smartphone functions as messaging or Web searching. But while consumer technology is a hot area, IoT will likely have a far greater impact in: manufacturing, resources and energy, utilities and civic services.

Simply defined, IoT is about connecting objects, from trucks to refrigerators and hydro

meters, to the Internet. Data gleaned from the sensors and systems applied to these objects can then be used to monitor, control or redesign business processes.

Meanwhile, a number of IoT focused venture funds have been launched and one analyst

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■ **Industry sector expertise is THE differentiator.**

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claims that knowing how many IoT companies there are at any given moment is tracking a moving target. Globally, every three weeks there’s either an acquisition or a new company starting up. And according to Accenture, roughly three quarters of large companies are investing 20% of their research and development spending on big data and analytics, which IoT is driving.

My research into this area of opportunity indicates that there are four expanding segments: makers and installers of physical sensors; connection providers (landline, wireless, telecoms, etc.); storage and security hardware and software (server farms, the cloud) to hold on to and encrypt all the collected data; and finally the data analysis software. Some companies do all that in one solution; others focus on one piece of the spectrum.

The projections for growth are huge: Networking equipment titan Cisco Systems Inc. believes IoT represents a \$19-trillion (U.S.) global market and predicts that 50 billion devices will be connected to the Internet by 2020.

For those who missed one particular development that emerged over a year ago, 500-attorney Husch Blackwell, a St. Louis based firm, completely dispensed with its traditional practice group structure in favor of organizing itself into a configuration of six industry groups.

In a recent interview with firm chairman, Maurice Watson, he explained, “We were aware that the competition, especially in our segment of the market, was intensifying, that there were too many talented lawyers and talented firms and too little great work to be had. As a consequence, there’s much greater pressure and focus on the need for law firms to be able to differentiate themselves as well as establish, for clients, that they can offer some kind of additional value that other comparable firms could not provide.”

Back in 1989 I authored one of the first books on the marketing of legal services (for Butterworths) wherein I confidently predicted that within ten years every significant law firm would be structured based on industry groups – so much for the folly of making predictions. Fast forward twenty-five years and it is still staggering for me to understand why, in spite of decades

of witnessing other professions, like our brethren in the accounting and management consulting fields, focus on seeing client need through an industry lens, that so many law firms still miss this opportunity. It gets even crazier when we consider that one of the primary reasons for corporate counsel to either select (or deselect) any firm is increasingly based on the degree to which that firm clearly “demonstrates” an understanding of the client’s business, their industry, and what issues are of paramount importance.

What makes industry sector expertise a meaningful differentiator?

First, where you enter into serving a specific industry segment and are eventually perceived by the sub-industry members as having specialized knowledge in their unique business and legal matters (“you talk their lingo”), you can develop a name recognition that becomes hard for others to match.

Second, in any market with a steep learning curve, being first to target and develop a presence in some specific industry segment (think: personalized DNA-based medicine) can confer the advantage of having a head start. That head start allows you to position yourself as a primary source for media commentary, for seminar presentations, for having articles published and other such positioning tactics.

Finally, by being early and effective in targeting some lucrative sub-industry, you have the opportunity to draw clients into your web, creating “switching costs” that curtail those clients from any notion of later, moving their work to other copy-cat firms.

MAKE NO MISTAKE: *To take advantage of the opportunity professionals must participate actively within their chosen industry segment and work to establish a significant presence.*