

FOCUS ON GROWTH

Too many firms are driven by the cost side of the balance sheet.

(April 05)



Numerous reports and personal observations indicate that some firms have become fixated on cost cutting. This inevitably leads to a stifling of innovation, lower investment levels and development of a 'Scrooge-like' culture. There are limits to effective cost cutting; a stage must come when growth strategies prevail once more.

The share market 'correction' that followed the dot-com bust has seen businesses of all types (law firms included) become fixated on driving down fixed and variable costs to the point where counter-productive results can be seen. One example is increased staff turnover driven by personnel seeking higher pay in an environment where cost control mechanisms are not prevalent. No firm wants to be blackmailed by staff seeking unreasonable increases not linked to productivity but when true replacement costs are running at up to 50% or even 60% of a year's remuneration some balance is required. A major US retailer, Costco, has set its pay rates at 50% above retail industry average and believe the resulting twin benefits of low staff turnover and higher quality recruits gives them a competitive advantage. US retail staff T/O rates are reported to be 59% per annum whereas Costco's are 6%. Higher pay rates provide more choice and higher quality staff when recruiting.

Managing cost remains important but not when it spreads to lower investment levels and stifles organic growth. When clients have an increasing number of alternative providers for day-to-day legal services firms should consider what competitive advantage they can offer. Firms who can differentiate their service from others can introduce premium pricing. Being the cheapest on the block is insufficient differentiation and leads to further commoditisation of services.

If you are concerned about managing cost, investment in new equipment/services, staff turnover, lower levels of client loyalty, static or low level fee growth call our office to learn more.