Bigger. Better. Both?

What lawyers learn from clowns: Blue Ocean strategy

What do Cirque du Soleil and NewLaw have in common? They are both a demonstration of value innovation and both swim in a Blue Ocean.

Late last year I wrote a blog that referred to Blue Ocean Strategy (BOS) and I had quite a bit of feedback. That feedback convinced me that not many people really understand what is at the heart of BOS. Since then I think I've read all there is to read about it. So what is at the heart of Blue Ocean Strategy and why is this relevant to law?

At the heart is *value innovation*; a concept centred on a simultaneous win-win scenario for clients and law firms; clients gain increased value and firms gain increased profit. There is no doubt that some new law firm models recognise this because it is happening now. But Cirque du Soleil provides a great example of how the old can be re-invented into the new for a win-win, read on.

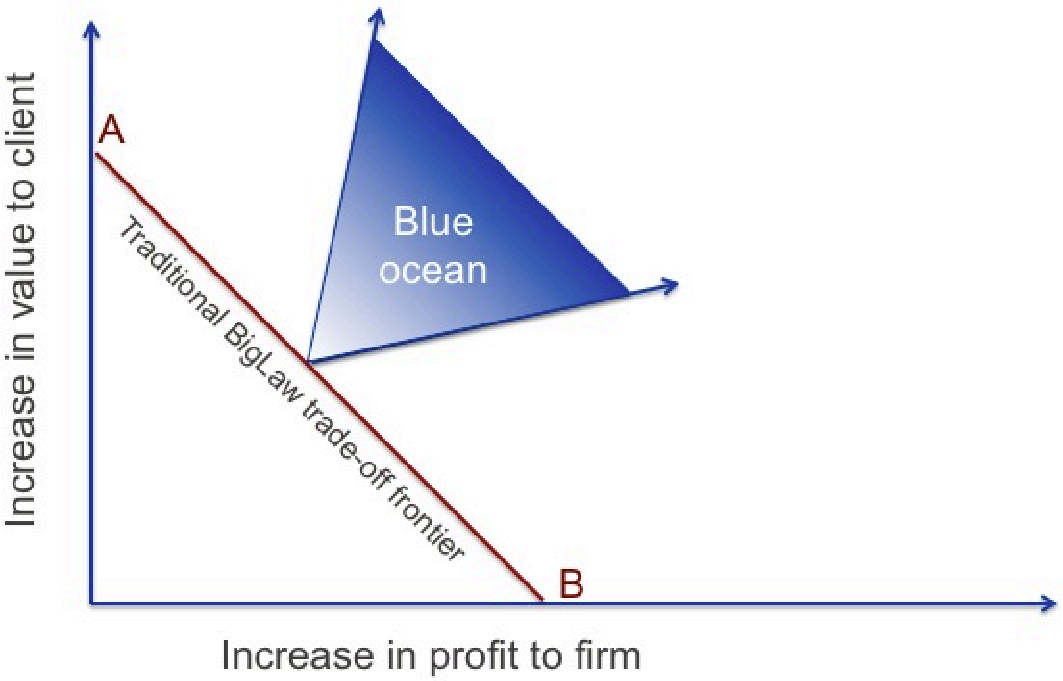
Consider this observation from the HBR. *"At the time of Cirque's debut, circuses focused on benchmarking one another and maximising their shares of shrinking demand by tweaking traditional circus acts. This included trying to secure more and better-known clowns and lion tamers, efforts that raised circuses' cost structure without substantially altering the circus experience. The result was rising costs without rising revenues and a downward spiral in overall circus demand."*

Sounds familiar? Not only are their uncanny similarities between lion tamers and law firm partners; more fundamentally the business model of circuses and law firms are not too dissimilar. Hire the best talent to draw the client/audience, maximise the yield on that talent, drive down fixed costs (old style circuses replaced their big tops with rented arenas) to be able to pay for that talent, and try to occupy a space (physical or otherwise) where there is no competition.

Blue Ocean Strategy, Value Innovation and BigLaw

Value innovation breaks with the conventional value/cost trade-off, where a firm increases its value to its clients by increasing cost, or the opposite it decreases cost and decreases value to its clients. BOS seeks to break this relationship, by increasing client value and simultaneously increasing a firm's profit. Cirque, and this is only one of a number of examples cited by the HBR authors, increased the value of the circus experience to its paying customers by providing more of what an audience really wanted, which allowed it to access a new and higher spending audience base and at the same time Cirque reduced its own costs, for example it removed costly and undervalued animals from the show. Whilst Cirque du Soleil was a disruptive *new entrant*, the HBR paper cites *incumbents* that shifted the boundaries of their markets and created Blue Ocean strategies; there is a lesson here for BigLaw.

The best way to visualise this scenario is to consider the 2×2 matrix below. Typically BigLaw operates along the 'trade-off' frontier A-B, where increasing value to clients reduces profit to the firms and visa versa. Firms are fighting along this frontier to at best differentiate themselves or at worst discount. NewLaw firms have severed themselves from this umbilicus and are developing business models that allow a win-win: increased value for the client simultaneous with increased profit for the firm, in the Blue Ocean.



Evidence of *new entrant* Blue Ocean strategies in the delivery of legal services can be found with enterprises like LPO providers, and the alternative delivery models of Axiom and Riverview Law. Riverview Law is a strong example of a NewLaw business model, which includes fixed pricing and a corporate style CRM ethos that increases client value relative to the conventional alternatives. Significantly, Riverview has a cost and governance structure that allows it to generate profit, where conventional partnerships struggle. Riverview's founders are businessmen first and lawyers second, they shaped a model of service delivery from the perspective of the client not the firm. But as the HBR article acknowledges, the Blue Ocean is not restricted to new entrants only.

Evidence of *incumbent* law firms developing Blue Ocean strategies can be found. Jordan Furlong in NewLaw New Rules observes: "New ways to organize legal talent and sell its services are flourishing. Four major British law firms (Berwin Leighton Paisner, Eversheds, Pinsent Masons, and Allen & Overy) have set up affiliated project lawyer agencies." Interestingly, Legal Week noted that BLP's Lawyers on Demand service grew 28% in 2013, compared to a 40% reduction in BLP's PEPP. Other notable strategies of *value innovation* include Seyfarth Shaw, and their legal supply chain consulting arm SeyfarthLean.

Now some of you will be saying that it can hardly be a Blue Ocean if you are sharing it with others. This may be true, but it is a matter of relativity. BigLaw is a Red Ocean (i.e. bloody competition) with a conventional boundary. It is the firms that are challenging the conventional boundaries who will open up blue ocean opportunities for themselves and the litmus test is *value innovation*. As the HBR article stresses, blue oceans are not about technology innovation, "blue ocean strategy is achieved only when the whole system of a company's utility, price, and cost activities is properly aligned". NewLaw gets this, they create client value that is incrementally superior to their competitors, and they do this with sufficient profit to fuel both growth and satisfy shareholder expectations.

Is globalising BigLaw a Blue Ocean Strategy?

As incumbents in the provision of legal services, BigLaw have an opportunity to break out of the red ocean and redefine the boundaries of their industry, the challenge for BigLaw is how to reinvent its governance and operating structure to achieve that true win:win. The true globalisation and restructuring of some major firms could be seen as one way to achieve the benefits of a Blue Ocean strategy, where sheer scale and reach creates incremental value for clients and a more efficient delivery model for the firms themselves. As the HBR paper observes, which should be signal for BigLaw CEOs "…in most cases, a blue ocean is created from within a red ocean when a company alters the boundaries of an existing industry".

The founder of Cirque du Soleil was a "onetime accordion player, stilt walker, and fire-eater," he was from within the industry not from outside, nevertheless he saw a different way to create value for *both* his audience and himself. The rest, as they say, is history.

If you found this post of interest, you can find more on related topics here:

- BigLaw all at sea. Red Ocean or Blue Ocean?
- Last days of the BigLaw business model
- Firms need reinvention in tough times
- Future shock: Which law firms will survive?
- Danger in being part of the BigLaw establishment

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