

RESPONDING TO THE CORONAVIRUS PANDEMIC

MANAGING EXPENSES DURING AN ECONOMIC DOWNTURN

An MPF Webinar – April 15, 2020

by

Lee Garbowitz
HBR Consulting

Kevin McClean
HBR Consulting

John Remsen, Jr.
TheRemsenGroup

FEATURED RESOURCE

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Smart Strategies for the Forward Thinking Law Firm

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Kevin McClean
Managing Director, SSBO

Kevin serves as a managing director and leads the Strategic Sourcing + Business Optimization practice within the Advisory business at HBR Consulting (HBR). Kevin is responsible for client strategy and experience, growth and talent management across teams and has deep experience providing strategic expense management solutions for large-scale clients to streamline operations and enhance profitability. He is passionate about creating collaborative and customized solutions for his clients.

Prior to joining HBR, Kevin helped build the Strategic Sourcing and Procurement Solutions practice at Huron Consulting Group and was also a consultant at Arthur Andersen.

Kevin led the implementation of the HBR Cares Program, which encourages teams to get involved in the communities in which they live and work, through volunteering opportunities.

Kevin is a proud husband and father of two sons, and also enjoys coaching.

Lee Garbowitz
Managing Director, SSBO

Lee serves as a managing director in the Strategic Sourcing + Business Optimization practice within the Advisory business at HBR Consulting (HBR). Lee leads Procurement Managed Solutions, which includes HBR's Procurement GPO. Lee has over 20 years of experience in optimizing growth and profits for leading institutions, including GE, Honeywell, Cadbury and WPP.

Prior to joining HBR, Lee has served as chief procurement officer of Cadbury and WPP in North America. Additionally, he was a consultant at McKinsey working as part of their Purchasing and Supply Management Practice.

Lee holds an MBA from NYU and a B.S. from Carnegie Mellon, and is an avid marathoner who is looking forward to completing all 6 major marathons and a marathon on all 7 continents (Antarctic included).



BIOGRAPHICAL PROFILE

John Remsen, Jr. - President

John Remsen, Jr., is widely recognized as one of the country's leading authorities on law firm leadership, management, marketing and business development. Since 1997 TheRemsenGroup has consulted with more than 400 law firms and thousands of law firm leaders to help them develop and implement long-term strategic objectives to improve cohesiveness, profitability and sustainability.

John is a frequent speaker and author on law-firm leadership and marketing topics. He has spoken at national and regional conferences of the Legal Marketing Association, Association of Legal Administrators, American Bar Association, and numerous state and local bar associations. His articles have appeared in dozens of highly respected legal publications, including the *ABA Journal*, *Law Practice Management*, *Law Practice Today*, *Law360*, *Legal Management*, *Marketing for Lawyers*, *Marketing the Law Firm*, *Managing Partner*, *National Law Review* and *New York Law Journal*.

Since 1988, John has been an active member of the Legal Marketing Association, and he has served as President of LMA's Southeastern Chapter, Executive Editor of *Strategies* (LMA's newsletter) and a member of LMA's national Board of Directors. He is also an active member of the Association of Legal Administrators and a popular speaker at ALA meetings and conferences.

In 2002, John created The Managing Partner Forum, a highly acclaimed conference series and community for managing partners and law firm leaders. More than 1,200 firm leaders from 900 law firms from 43 states have participated in 26 conferences. In addition, John distributes *The MPF Weekly*, an electronic newsletter to more than 10,500 firm leaders throughout the U.S., Canada and 28 other countries.

John's influence was underscored when he was inducted as a Fellow of the College of Law Practice Management in 2013, in recognition of his 25 years of demonstrated expertise in law firm leadership and management. Founded in 1994, the College honors those who "inspire excellence and innovation in law practice management." Membership is by invitation only and includes just 200 individuals.

And the College was not alone: in 2016, John was recognized by LawDragon as one of the "Top 100 Consultants and Strategists" to the legal profession; and in 2017, John was recognized as one of the world's top "leaders and influencers" in the business of law by the Association of International Law Firm Networks.

A native of West Palm Beach, Florida, John holds an MBA from The University of Virginia (1985) and a bachelor's degree in Business Administration from the University of Florida (1980). Prior to enrolling in graduate school, John was Executive Director of The Florida Council of 100, an organization comprised of Florida's top CEOs and other business leaders.

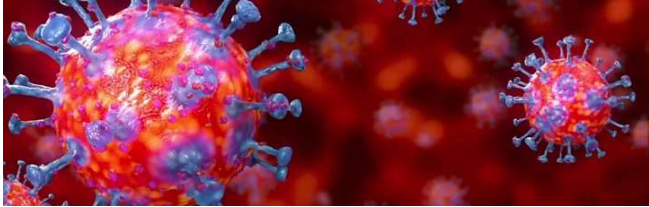
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Responding to the Coronavirus Pandemic



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Managing Expenses During an Economic Downturn
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April 15, 2020 – 2:00pm ET





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John Remsen, Jr.

- President, TheRemsenGroup
- President & CEO, Managing Partner Forum
- Strategic Planning, Marketing/Business Development, Firm Retreats, COO/CMO Search
- Speaker:
 - American Bar Association
 - Association of Legal Administrators
 - Legal Marketing Association
 - MPF Annual Conference
 - Law Firm Networks
- Education:
 - MBA – University of Virginia
 - BSBA – University of Florida



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Lee Garbowitz

- Managing Director – Strategic Sourcing and Procurement, HBR Consulting
- Chief Procurement Officer, Cadbury and WPP
- SVP-Strategy/Product Development, GE Money
- Speaker and Author
- Education:
 - MBA – New York University
 - BS, Engineering – Carnegie Mellon University



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Kevin McClean

- Managing Director – Strategic Sourcing & Business Optimization, HBR Consulting
- Manager, Huron Consulting Group
- Consultant, Arthur Andersen LLP
- Speaker and Author
- Education:
 - BBA, Finance – University of Iowa



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TODAY'S WEBINAR

- Opening Remarks
- Strategies to Manage Expenses
- Q&A with Lee and Kevin
- Next Webinar: Maintaining Productivity

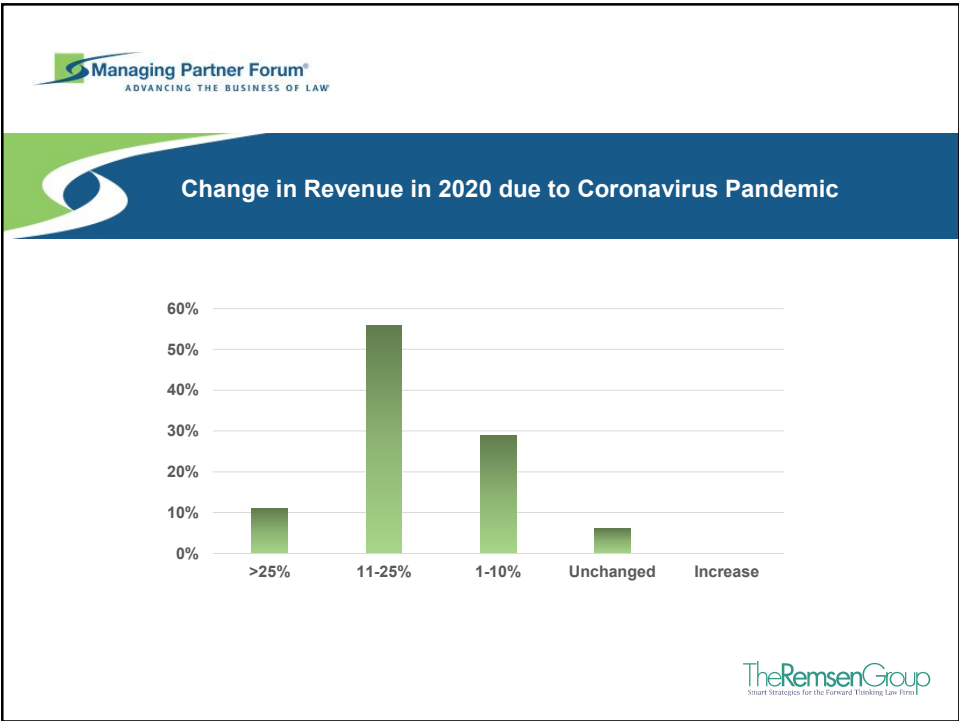


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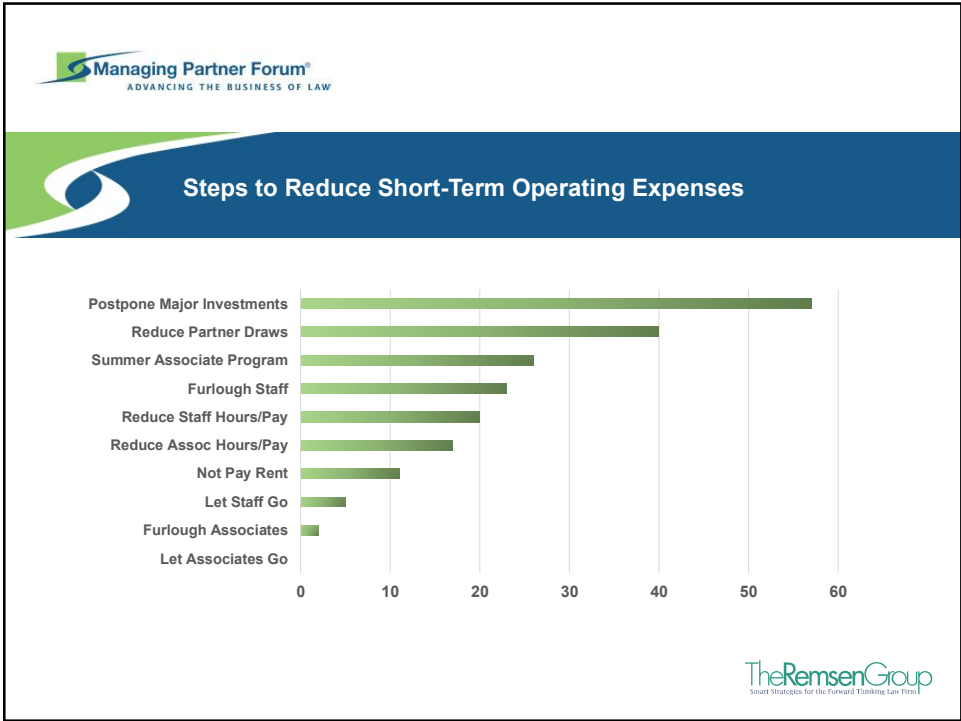
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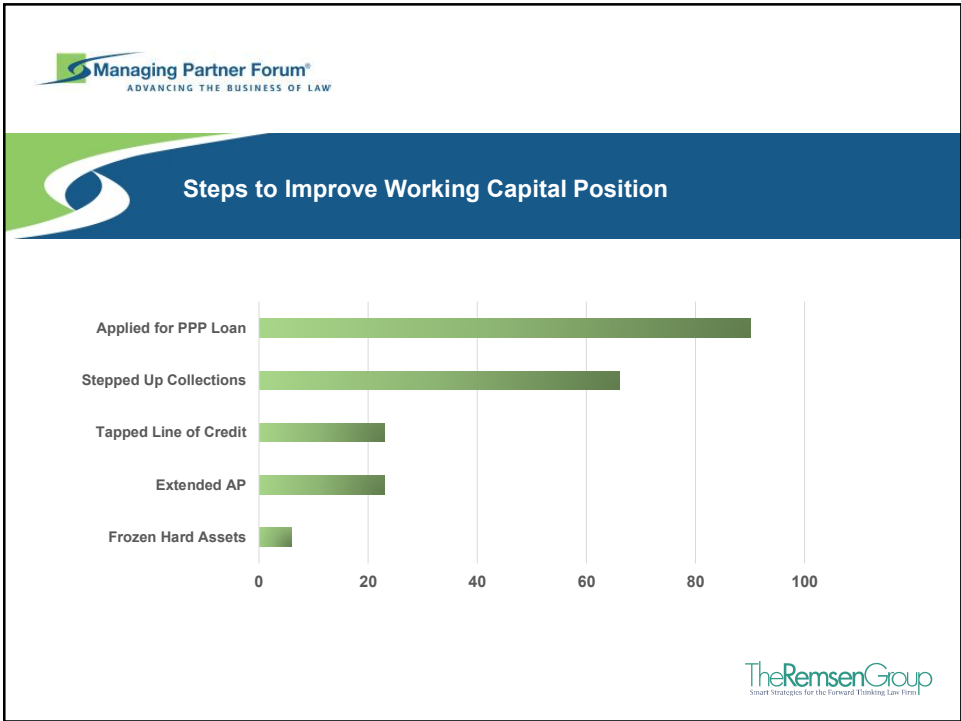
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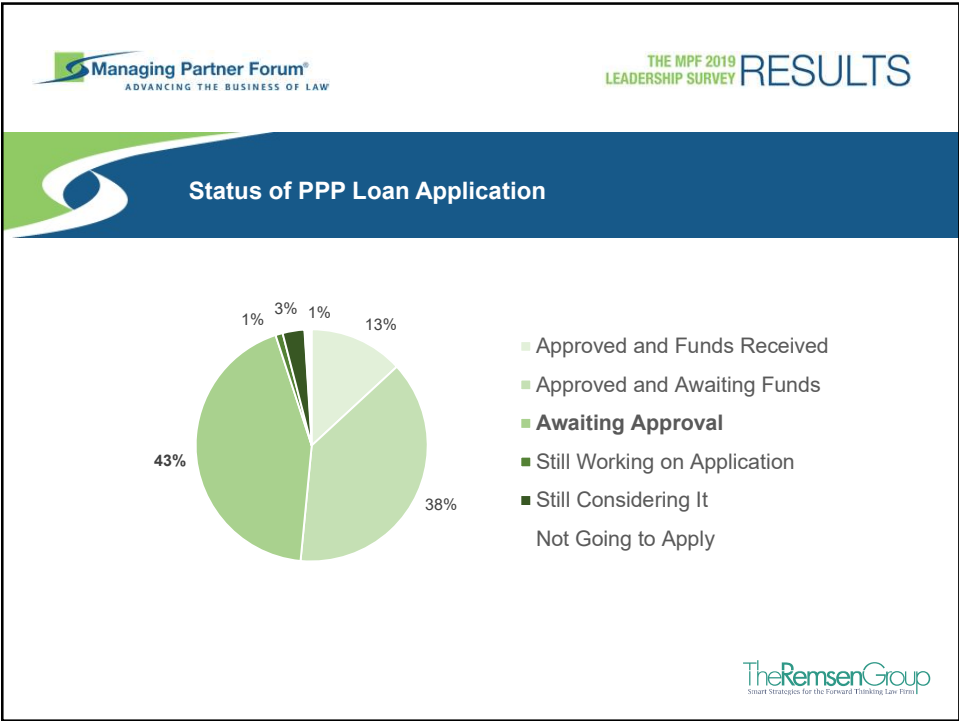


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Prepared for the MPF Webinar Series
April 15, 2020

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HBR At-a-Glance



Trusted advisors with
35+ years market expertise



325+
professionals



U.S., UK +
Canada
footprint



Am Law 250 + Fortune 1000
expertise

Industry thought leaders:
Legal Lab, Law Department Survey + CLOC



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Discussion Goals





Provide strategic framework and perspective



Outline 4 step vendor approach



Share specific examples firms are implementing

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Lessons From the Last Downturn

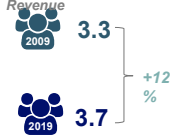
Then: 2009

- In 2009, 34% of law departments reduced staffing, while 70% increased work handled in-house.
- 72% of departments froze outside counsel rates; and another 51% asked for reductions.
- 11% of departments planned to use ALSPs to control costs.
- 50% of law departments implemented e-Billing tools, limiting visibility into spend.

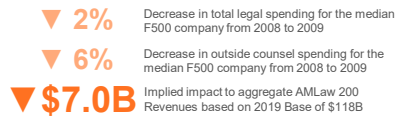
Now: 2020+

- Over the past decade, law departments have significantly increased the size of their internal teams.
- Outside counsel will be asked to freeze rates for the foreseeable future – in addition departments may partner in different ways.
- The use of ALSPs will accelerate as departments seek lower, and more variable costs (80% currently using ALSPs).
- 90% have e-Billing tools, allowing for a more agile and nimble response to changing needs.
- New: The advent of legal operations (85% of departments have resources) suggests that departments will be proactively implementing measures to control spend.

Lawyers per \$B of Revenue



Potential Revenue Impact for Law Firms

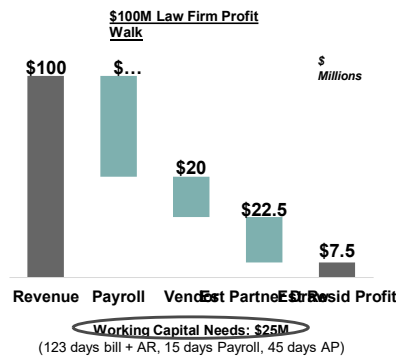


Practice Area Demand



Data sourced from HBR Law Department Survey – the leading source of benchmarking data on corporate law departments.

General Context: Illustrative \$100M Law Firm



Revenue Reduction Scenarios	2020 Profit Hit	Additional ST Cash Need
1 Qtr 25% Reduction	(\$6M)/21%	+4M
1 Qtr 50% Reduction	(\$13M)/42%	+\$11M
3 Qtr 50%/25%/10% Reduction	(\$21M)/71%	+\$16M

If 10% Revenue Reduction is New Normal and Payroll/Vendor Cost Are Treated Equally...

- \$1M Vendor Price/Use Reduction Required Reduce Margin Percent Reduction by Half
- \$2M Vendor Price/Use Reduction Required to Maintain Historic Margin Percent

Revenue and Margin (combination of est partner draw and residual profit) from public AMLaw 100 2019 Data
 Estimated partner draw estimated at 75% of potential profit
 Estimated vendor spend estimated at 20% of total revenue
 Cost segmentation and payment terms based on HBR industry benchmarks

Executive Summary: Covid Vendor Strategies

- COVID-19 related challenges are **significant** to the legal sector in terms of both **operational and economic impacts**
- Firms need to proactively **manage cash**, target **2020 expense reductions**, and evaluate **longer term cost management**
- Current experience indicates a willingness of vendors to accept **price (or cash) concessions** in exchange for **business assurance**
- HBR advocates a **4 step approach** to managing these challenges:

1

Capture Quick Hits

Identify immediate cash and expense management opportunities given changes in work/business environment

2

Plan for Uncertain Outcomes

Understand vendor term flexibility and proactively identify broader expense management opportunities to support needs

3

Execute on Phased Plan Based on Need

Pursue phased expense management program to counter current environment impact on firm financials

4

Align For Long Term

Consider and address longer term transformational changes to achieve efficiencies and adjust to new operational environment

Executive Summary: Covid Vendor Strategies

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Overarching Strategy

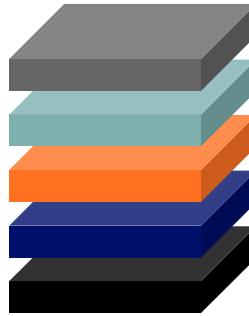
OBJECTIVE: Proactively manage cash + identify/implement cost reductions of 5-10% of annual vendor spend incremental to business as usual (not including cash management/working capital)

BE TOUGH BUT COMPASSIONATE

Segment vendor base (e.g. private vs. public, financial health, etc.) and calibrate approach

CAPTURE QUICK HITS

Identify immediate near term opportunities to reduce cost and manage cash



TOP VENDOR REVIEW

Directly engage top vendors to achieve 10-20% cost reduction while reviewing incremental savings via service changes

NOT PREVIOUSLY SOURCED

Expand procurements involvement across all categories of spend focusing on those not centrally sourced

DEMAND MANAGEMENT

Create targeted opportunities to reduce costs via use restrictions, supplier consolidation, etc.

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General Considerations



Vendor Working Capital Peer Firm Trends

- Hard asset pause and/or extension
- Extend AP payments to 60 days
- Expand ghost card usage as key payment mechanism



Immediate Opportunities... Identify + Communicate

- Address areas with reduce service requirements given temporary operational shift (e.g. labor, fixed costs, minimum commitments, etc.)
- Focus on large well capitalized (and recurring spend) providers (e.g. Williams Lea, AT&T, etc.)
- Review for price, demand and cash flow levers
- Engage vendors in services with increasing demand
- Expand review into "scared cows" (E.g. Pharmacy) and right size / align for "new normal"
- Proactively engage in early renewals coming due in next 90-180 days
- Aggressive approach to CapEx negotiations (Servers, Laptops, etc.)

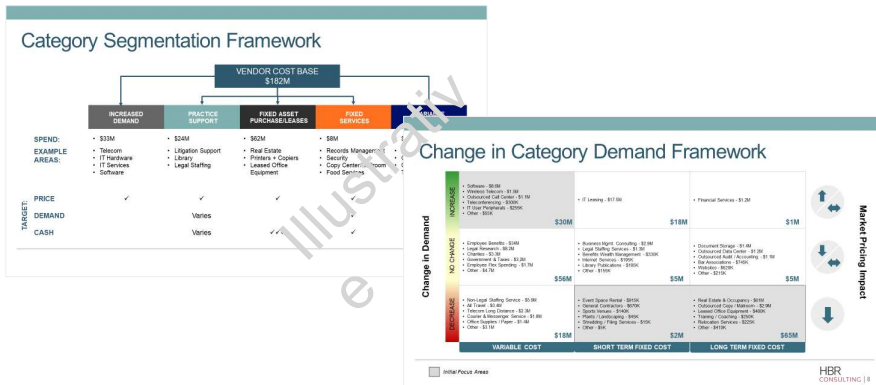


Operational Re-alignment

- Explore existing legal service delivery model(s) and internal v. 3rd party partnerships with focus on non core functions opportunities
- Implement digitization strategies (e.g. bill/pro forma review, library print, etc.)
- Identify areas of potential (new) spend in next 6-18 months and initiate dialogs

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Key Frameworks: Segmentation & Demand



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Step 1: Quick Hits – Cash Management

OBJECTIVE: Ideally maintain neutral or minimal changes in working capital needs.



Vendor Based

Defer lease payments – rent and other fixed asset expenses

Update payment terms unilaterally for large vendors increasing terms by 30/45/60 days



Policy Based

Review current payment terms and pay per terms

Make payment terms timing from approved invoice vs invoice receipt



Process Based

Increase use of p-cards and ghost cards to capture extended terms and rebates

Centralize all AP decisions making/payments if not already centralized

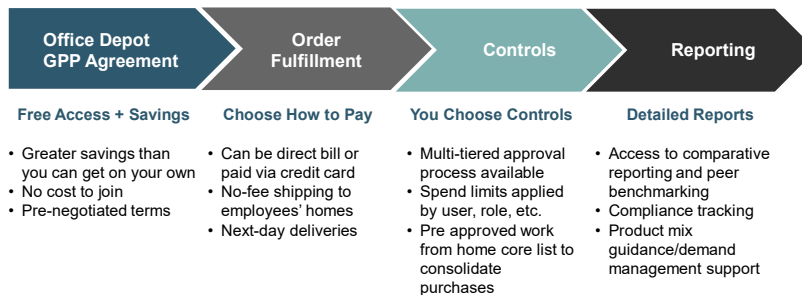
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SpendConnect Covid Response Dashboard



Step 1: Quick Hits – Work from Home Fulfillment

OPPORTUNITY: HBR Group Purchasing Program can **support employee productively working from home** (WFH), while allowing firms to **gain visibility and control spend**

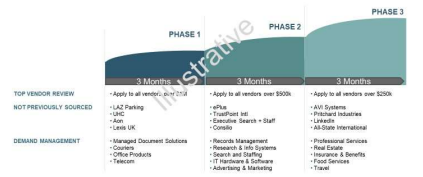


Step 2: Plan for Uncertain Outcomes

Strategy Alignment

Strategy	Vendor Review		Not Previously Scored	Demand Management
Objective	Reduce Price		Reduce Price	Control Terms
Targets	All Vendors with greater than \$1M in annual spend		All Categories (1) source centrally in last 2 years	Variable (1) source centrally in last 2 years
Vendors/Categories	- Black Cross Blue Shield (\$20.1M) - CSC Licensing (\$14.5M) - Evergy Scripts (\$7.4M) - Phoenix Retailers (\$5.3M) - Fourteenmile (\$2.5M) - Ally Group (\$2.1M) - RELI Group (\$2.0M) - CZTV Group (\$2.0M) - Lithium Group (\$1.7M) - Veri-Tek (\$1.7M) - Delta Dental (\$1.6M) - Healthcare (\$1.4M) - Brown & Brown (\$1.3M) - Integrus (\$1.4M) - Microsoft (\$1.3M)		- Category 1 (\$M) - Category 2 (\$M) - Category 3 (\$M) - Category 4 (\$M) - Category 5 (\$M) - Category 6 (\$M) - Category 7 (\$M) - Category 8 (\$M) - Category 9 (\$M)	- Term 1 (\$M) - Term 2 (\$M) - Term 3 (\$M) - Term 4 (\$M) - Term 5 (\$M) - Term 6 (\$M) - Term 7 (\$M) - Term 8 (\$M) - Term 9 (\$M) - Term 10 (\$M)

Phased Plan Overview

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Step 3 – Implement Program

Step 3 – Implement Program

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Step 4 – Long(er) Term Considerations...

Will the new normal require?

- › Reduced need for office space?
- › Changed expectations from internal and external clients?
- › More virtualized work environment?
- › Digital + Paperless environment?
- › More extensive expense management?



Should you as a firm consider?

- › Review non-core service delivery functions?
- › Reconfiguring/downsize your real estate assets?
- › Strategic review of technology and practice enablement efforts/budgets?
- › Virtualize legal support services (legal assistance, paperless billing, etc.)?
- › Category specific changes:
 - › Reduce print from the library and office?
 - › Reduce copier + printer fleet?
- › Third party support for software + hardware maintenance?
- › Consolidate commodity areas with preferred vendors?
- › Fully centralize procurement and increase spend controls?
- › Increase controls around non-billable travel?

Discussion Goals - Recap

Discussion Goals

- 1 Provide strategic framework and perspective
- 2 Outline 4 step vendor approach
- 3 Share specific examples firms are implementing



Key Takeaways

- ✓ Create framework for monthly run rate for revenue + expenses
- ✓ Engage your key vendors for both cash relief and cost savings
- ✓ Categorize vendor spend into fixed vs. variable costs, market demand, and practice support
- ✓ Push Accounts Payable payment terms 15 – 30 days
- ✓ Consider using ghost card
- ✓ Leverage benchmark data to gain scalability

Perspective: Solutions for Consideration

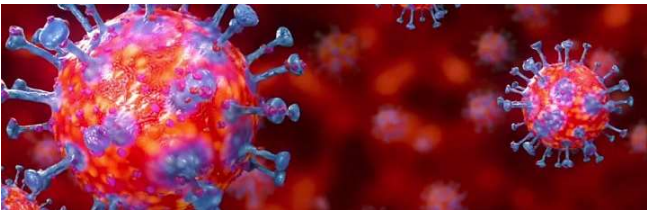
- 1 VISIBILITY Legal Procurement Software focused on efficiency + risk mitigation
 - SpendConnect Covid Response Dashboard + Contract Management System
- 2 ACHIEVE SCALE Ability to plug into framework agreements (Group Purchasing Program)
- 3 GAIN CAPABILITY Vendor Governance Turnkey to unlock savings, reduce risk
- 4 ELEVATE / AUGMENT TEAM Virtual Researchers Available on Demand

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- Demonstrate Care for People, Clients and Community
- Stay Educated and Updated
- Communicate Clearly and Frequently
- Keep Open Communication Lines
- Stay Cool, Calm and Collected
- Refer to the Experts
- Credibility, Reliability, Intimacy
- Today's Webinar and Handouts

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RESOURCES

- MPF Webinars and Handouts
- MPF Webinar #4 – Productivity – April 29th
- MPF Listserv and MPIE Conference Calls
- MPF Leadership Conference – Sept 30-Oct 1, 2020

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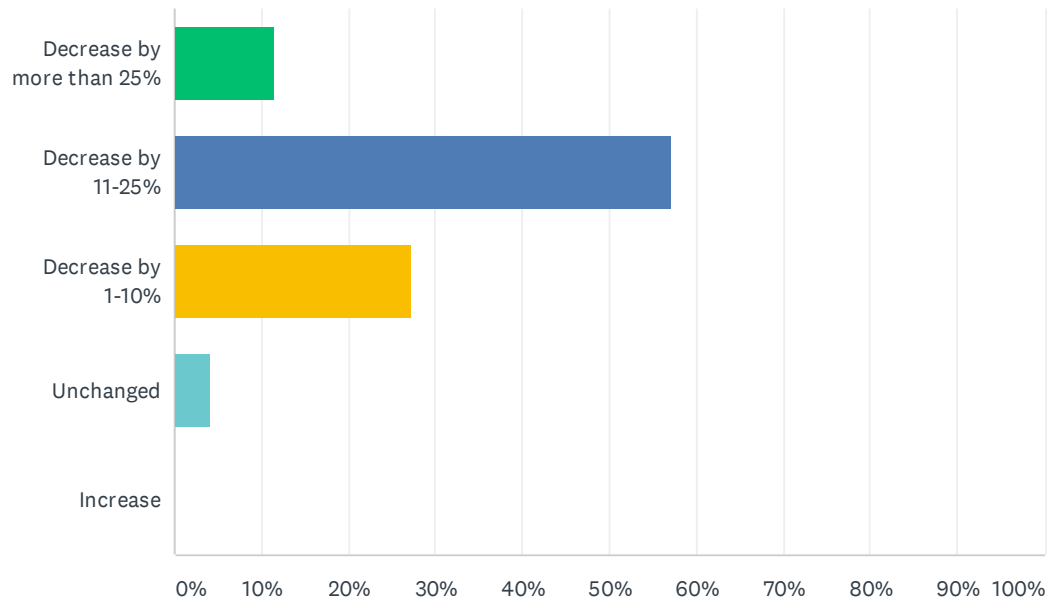
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Q1 What do you project to be your firm's change in revenue for 2020 due to the coronavirus pandemic?

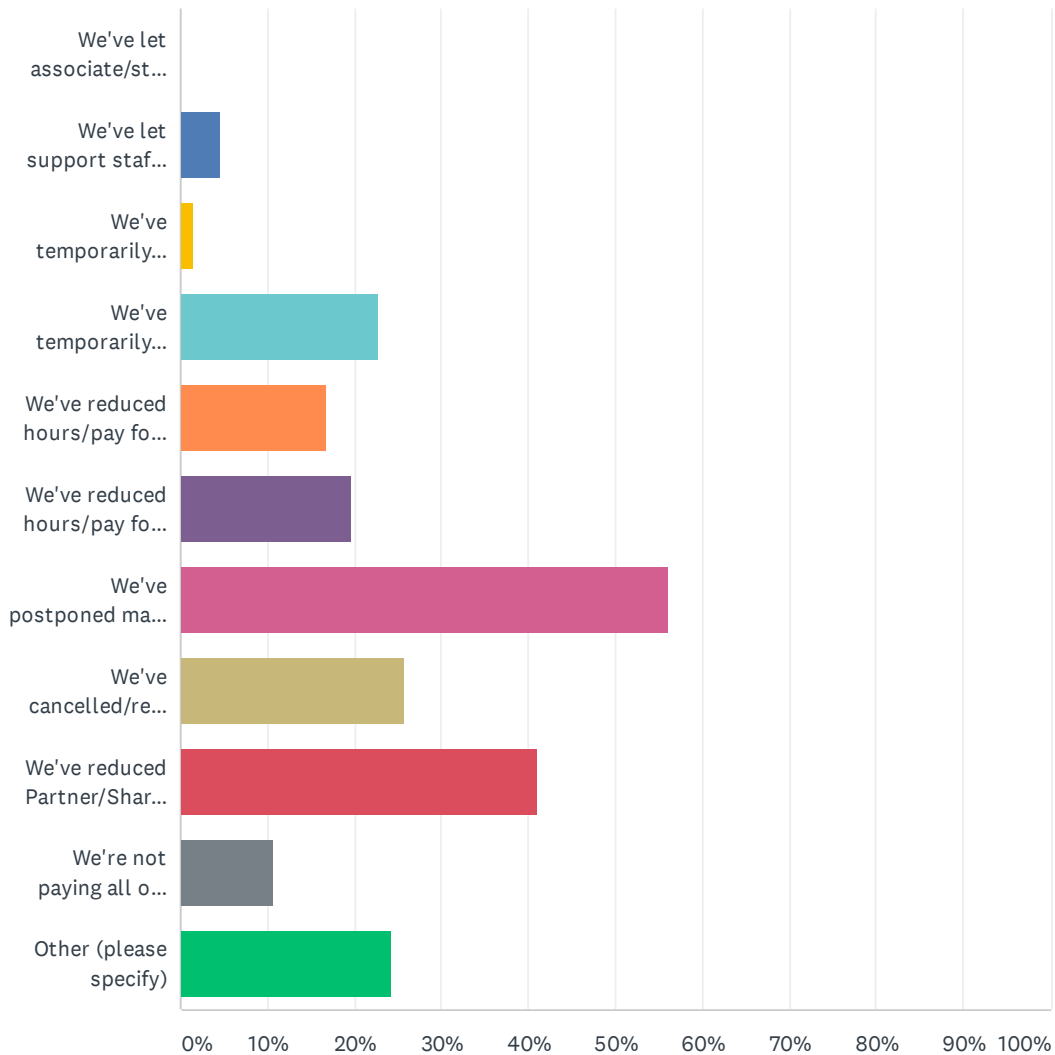
Answered: 70 Skipped: 0



ANSWER CHOICES	RESPONSES	
Decrease by more than 25%	11.43%	8
Decrease by 11-25%	57.14%	40
Decrease by 1-10%	27.14%	19
Unchanged	4.29%	3
Increase	0.00%	0
TOTAL		70

Q2 From the list below, what steps (if any) has your firm taken to reduce its short-term operating expenses? Please check all that apply.

Answered: 66 Skipped: 4

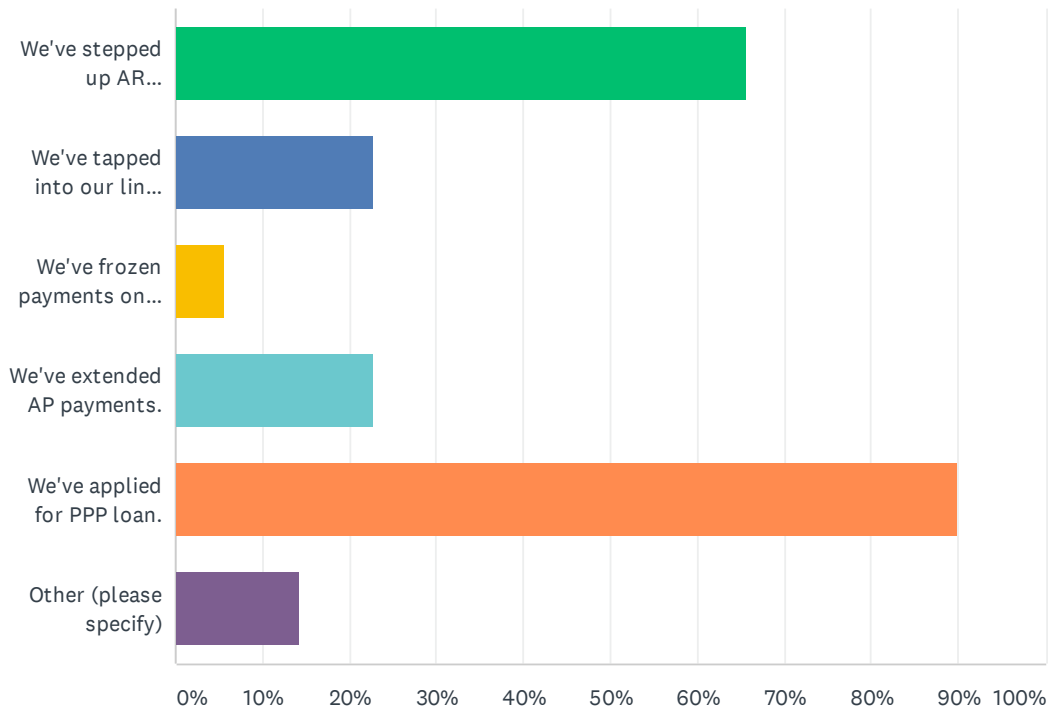


ANSWER CHOICES	RESPONSES
We've let associate/staff attorneys go permanently.	0.00% 0
We've let support staff go permanently.	4.55% 3
We've temporarily furloughed some associate/staff attorneys.	1.52% 1
We've temporarily furloughed some support staff.	22.73% 15
We've reduced hours/pay for associate/staff attorneys.	16.67% 11
We've reduced hours/pay for support staff.	19.70% 13
We've postponed major financial commitments (i.e. new lease, firm retreat).	56.06% 37
We've cancelled/reduced our summer associate program.	25.76% 17
We've reduced Partner/Shareholder draws.	40.91% 27
We're not paying all or part of our rent.	10.61% 7
Other (please specify)	24.24% 16
Total Respondents: 66	

#	OTHER (PLEASE SPECIFY)	DATE
1	Eliminated or postponed discretionary expenses	4/14/2020 1:42 PM
2	Cancelled summer outing but have postponed reducing salary or headcount due to PPP	4/14/2020 12:57 PM
3	We are keeping everyone employed and using Emergency Medical Leave (80 hours)to rotate staff with, eliminated all OT, and going to use the PPP funds through June when econ will be back up and running pretty strong	4/14/2020 12:39 PM
4	None - moved everyone to work from home.	4/14/2020 12:25 PM
5	Reviewed all expenses and reduced or eliminated some non-essential costs.	4/14/2020 12:19 PM
6	zero OT, parking concessions, projects put on hold, obviously no travel, entertainment, hospitality expenses	4/14/2020 11:47 AM
7	Renegotiated recurring expenses (parking, janitorial, IT)	4/14/2020 10:53 AM
8	We were in the process of hiring associates. That is on hold for now	4/14/2020 10:51 AM
9	Marketing events that have been cancelled or postponed we have not made sponsorship committments.	4/14/2020 10:49 AM
10	Curtailing all professional activities	4/14/2020 10:45 AM
11	cancelled markering sponsorships	4/14/2020 10:45 AM
12	Canceled upcoming large client events	4/14/2020 10:45 AM
13	Several of the items identified above are the subject of decisions to be made later this month.	4/14/2020 10:36 AM
14	We are considering permanent remote status for many employees	4/14/2020 10:36 AM
15	Suspended all nonessential expenses, sponsorship's, marketing extras, overtime and Office 365 implementation.	4/14/2020 9:59 AM
16	Controlled discretionary spending	4/14/2020 9:48 AM

Q3 From the list below, what steps (if any) has your firm implemented to improve working capital position? Please check all that apply.

Answered: 70 Skipped: 0

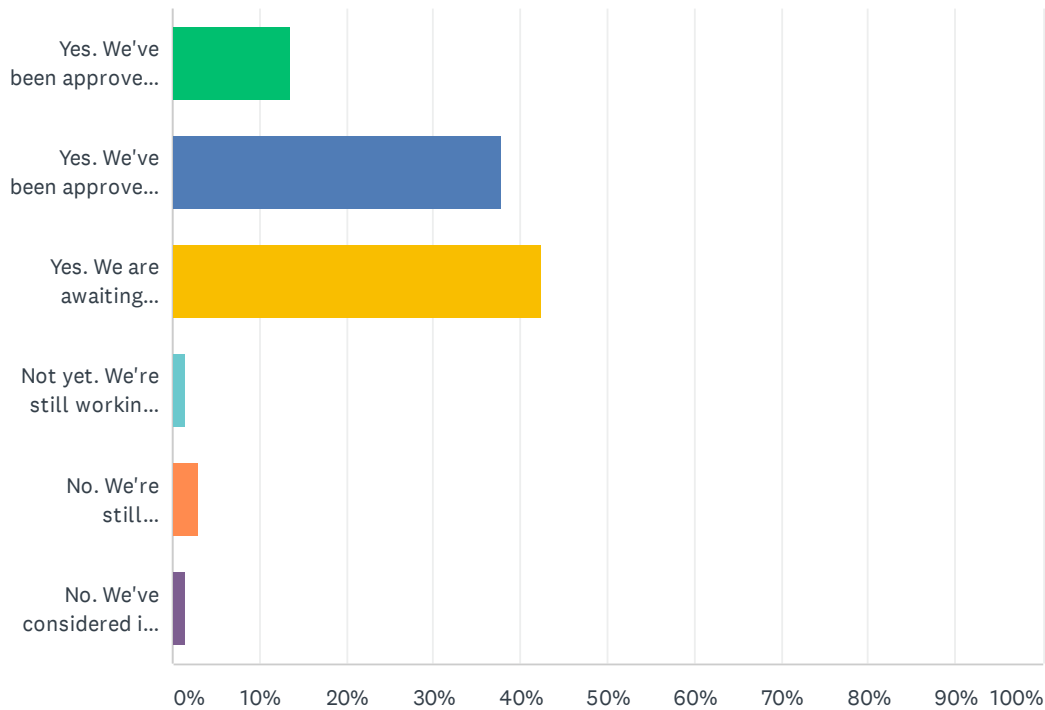


ANSWER CHOICES	RESPONSES	
We've stepped up AR collections.	65.71%	46
We've tapped into our line of credit.	22.86%	16
We've frozen payments on hard assets.	5.71%	4
We've extended AP payments.	22.86%	16
We've applied for PPP loan.	90.00%	63
Other (please specify)	14.29%	10
Total Respondents: 70		

#	OTHER (PLEASE SPECIFY)	DATE
1	Utilized contract negotiations to reduce some monthly payments.	4/14/2020 5:28 PM
2	Review weekly billable hours, not just monthly	4/14/2020 12:57 PM
3	Called on all leases equipment and cars and received 2 to 3 months relief now added to the end of the leases. Also on a month to month basic will have a car loan payment pushed to the end of the loan.	4/14/2020 12:54 PM
4	PPP can only be used for rent, healthcare prem, retirement plan so this is not really a WC loan	4/14/2020 12:39 PM
5	We drew down on line of credit to create cash reserve.	4/14/2020 10:56 AM
6	We've deferred Profit Sharing Contributions normally funded in March; we are negotiating rent deferrals with our landlords	4/14/2020 10:56 AM
7	Sent bills out a week earlier than normal	4/14/2020 10:52 AM
8	increased our Line of credit	4/14/2020 10:42 AM
9	Pushed to get bills out faster than usual.	4/14/2020 10:40 AM
10	making decisions now on this	4/14/2020 10:25 AM

Q4 Has your firm applied for a Paycheck Protection Program (PPP) loan available through the Small Business Administration?

Answered: 66 Skipped: 4



ANSWER CHOICES	RESPONSES	
Yes. We've been approved and have already received funds.	13.64%	9
Yes. We've been approved and funds are pending.	37.88%	25
Yes. We are awaiting approval.	42.42%	28
Not yet. We're still working on our application.	1.52%	1
No. We're still considering it.	3.03%	2
No. We've considered it and have decided not to apply.	1.52%	1
TOTAL		66

Q5 What question(s) would you like us to ask Kevin and Lee during the Webinar?

Answered: 10 Skipped: 60

#	RESPONSES	DATE
1	Do you see common characteristics or trends among firms that have announced reductions in partner draws? For example, do they generally have structures where partners receive a higher percentage of annual comp through monthly draws (versus an end of year "bonus") in comparison to firms that may be more conservative in the amount that is distributed through monthly draws?	4/14/2020 8:02 PM
2	Is K-1 partner compensation allowed for loan calculation and forgiveness? Can an annual safe harbor 401K contribution be included in the loan and included in the forgiveness calculation? How is existing debt interest accounted for in the forgiveness? Actual incurred during the 8 week period? Are all lease costs included in the forgiveness calculaton? ie CAM costs.	4/14/2020 6:11 PM
3	Do you recommend reducing expense on Marketing or BD when cash is tight, or do those functions have increased importance?	4/14/2020 12:57 PM
4	Do you know what will be forgiven on the PPP loans? Details! Can you prepay rent during the 8 week period? Can you bonuses employees under 100,000 annually ? Can you makeup the 20% cut that employees have already taken? Will the forgiveness be on a cash basis during the eight week period, if so should you change your payroll period to match the 8 weeks to increase your forgiveness?	4/14/2020 12:54 PM
5	Do you have or have you spoken to other firms that have a large portion of contingency fee work to understand what contingency fee firms are doing and how they are affected differently?	4/14/2020 12:25 PM
6	We have a number of Senior Attorneys and their secretarial staff (over the typical retirement age of 65) that are incapable of effectively working remotely or not at all. Many of them control significant business and strongly object to remote work and their secretarial staff furloughs. And all of them are at high risk from infection with the coronavirus. How would you handle this situation?	4/14/2020 10:56 AM
7	How do you project revenue loss scenario when your client base is so varied (individuals to Fortune 500).	4/14/2020 10:49 AM
8	Looking for boots to the ground ideas from experts that I may not have considered please.	4/14/2020 10:41 AM
9	What are other firms doing, particularly mid size IP firms, to address COVID19 situation. What do you project for next steps, following the initial reactions as noted in the survey?	4/14/2020 10:36 AM
10	What impact will late payments in this environment have on seeking lines of credit in the future? Will banks make exceptions if payments were good up until this pandemic?	4/14/2020 10:25 AM

How Centers of Excellence Are Accelerating Efficiencies Across the Legal Landscape



Introduction

Across today's legal ecosystem, a set of complex forces has pushed law firms to strategically reexamine and transform operational support in a way that places a greater emphasis and value on corporate client-facing activities. Cost pressures, new competitors and emerging technology, and evolving workforce dynamics are influencing an industry that is now embracing change in different ways.

As the pace of change accelerates, organizations need to acutely define their core competencies and align business strategies, talent and resources to truly differentiate in a hypercompetitive market. For instance, general counsel (GCs) are finding great success in hiring legal operations leaders to implement and manage strategic initiatives to drive change and efficiency across structures, practice areas, technology and staffing. By transitioning work that had previously fallen on the shoulders of the GC to [legal operations professionals](#), GCs are able to focus on core competencies, act as business advisors to the corporate board and provide even greater counsel to their organizations.

Similarly, law firms are increasingly using business professionals to lead and sponsor initiatives and provide diversity of perspective. By acknowledging that there are benefits to bringing in accomplished business professionals from other industries to transform processes and implement technologies, firms are able to free up attorneys to focus more on clients.¹ Furthermore, given the rise in alternatives to outside counsel, law firms must demonstrate differentiation and provide **centers of excellence (CoEs)** beyond what corporate law departments can deliver in-house. Shifting corporate client demands are challenging law firms to further define their core competency – the business of law – and leverage operational experts and CoEs to deliver their services in the most efficient and cost-effective way possible.

Forward-thinking law firms and law departments are now looking beyond internal staffing and cost-reduction strategies and are pursuing strategic opportunities utilizing outside experts to manage those services that fall outside of their core capabilities. This enables organizations to focus on what matters most: their clients.

CENTERS OF EXCELLENCE

Centers of excellence are teams of experts that provide leadership, research, insight and best practices for a business focus area. A CoE delivers enhanced service at lower costs than traditional business models, and offers a scalable and nimble approach to changing market and business conditions.

Operational Efficiency is a Top Priority

Across the legal vertical, these are the forces that have and will continue to instigate a long-term drive towards change:

- **Pricing + cost pressures.** As law departments face mounting pressure to trim costs and mitigate risk, work previously assigned to law firms is transitioning back in house. This has resulted in law departments' outside counsel spending decreasing, while inside spending has gone up. In fact, 52% of in-house teams added law department staff in 2018, compared to 44% in the prior year, according to our latest [HBR Law Department Survey](#).² For in-house teams, this presents a new challenge: to ensure in-house attorneys make the most efficient use of their time on higher value-add and complex work rather than lower value administrative tasks. For law firms, the pressure is on to provide more competitive or alternative fee arrangements to demonstrate and justify the value of their services to corporate clients. In pursuit of efficiency, leading firms are now evolving their service delivery models to capture the complexity of a matter and identify lower-tiered work. This allows firms to ensure staffing strategies align with the value of matters.
- **Emerging competitors.** Law firms face a radically different competitive landscape than they did even three years ago. With law departments taking steps to minimize outside counsel spending, one of law firms' most consistent revenue sources is now fraught with uncertainty. At the same time, the New Law era has given rise to a host of third-party legal service providers, technology and software vendors. Major players from the likes of Axiom to Watson are infiltrating law firm territory, offering specialized expertise in areas like discovery, M&A and contracts — not to mention more flexible and appealing work arrangements for practicing attorneys.³ Another potential threat to law firms is the Big Four — the world's largest public accounting and auditing firms, which *The American Lawyer* described in a November 2018 feature story as an “existential threat” to law firms, and questioned whether they may be planning “an invasion” of the U.S. legal market.⁴ And as corporate law departments continue to embrace and adopt alternative service providers and technology, pressure will continue to increase for outside counsel.
- **The war for talent.** Acute competition across the legal vertical is also responsible for upending many organizations' compensation and recruitment traditions. Although law school enrollment finally rose in 2018,⁵ the decade of flat enrollment has created increased competition for talent. In addition, more law firm partners are nearing retirement. The result is that organizations face multiple questions about how to recruit, develop, compensate, retain and succession plan for their top performers, and competition for talent will likely increase in the future. Gone are the days where law firms are strictly competing with corporate law departments for talent pools. The new reality includes law firms, law departments, legal process outsourcing (LPO) providers, the “Big Four” and technology companies all competing for legal talent. Taking a page from Silicon Valley, many organizations are pursuing lawyers with niche expertise and established client relationships to elevate their reputation and revenue with the hopes of simultaneously increasing talent retention.⁶

In 2018, more U.S.-based partners left the partnerships of the nation's top 100 law firms than in any year since 2013,⁷ despite historically being deemed taboo. Faced with budget constraints and hiring freezes, law departments are shaking up their talent strategies, creating new roles for legal operations professionals and expanding their management responsibilities.⁸ Law departments are also increasingly focused on diversity – both in terms of internal staffing and outside counsel staffing requirements. This is a trend that is anticipated to greatly influence law firm staffing models, and firms that are not focusing on diversity now will be at risk of losing client business in the future.

No law firm or law department is immune to the market's evolution. Even the most elite firms, whose profitability has isolated them from certain competitive pressures in the past, are now exploring alternative approaches to established business functions. Leaders — even those at organizations that have been insulated from the impact of market change — acknowledge that if they do not pursue operational efficiencies now, they run the risk of losing market share in the future.

Opportunities in Centralizing, Offshoring + Outsourcing

For law firms, back-office centralization, which has been proven to optimize costs by 5-15%, has become a common practice for organizations looking to streamline operations and cut costs. Centralization often comes down to two options: offshoring or establishing roots in new, low-cost domestic markets.⁹ Large global law firms have fully embraced offshoring, particularly in Europe. Organizations including Baker McKenzie, Latham & Watkins and Linklaters have opened shared services hubs abroad to manage everything from IT, marketing and HR to finance and business development.

Leaders — even those at organizations that have been insulated from the impact of market change — acknowledge that if they do not pursue operational efficiencies now, they run the risk of losing market share in the future.

In 2016, United Kingdom and Washington, D.C.-based Hogan Lovells announced plans to establish a global business center in Louisville, Kentucky. The service center includes traditional service occupations, such as finance and accounting personnel, human resources and information technology professionals, along with staff attorneys and paralegals. The center is being integrated with another low-cost center that the firm has in Johannesburg, South Africa, enabling around-the-clock coverage for many of its services. Scott Green, Hogan Lovells' Global Chief Operating and Financial Officer stated that "...this approach to how we deliver our business services is innovative, pragmatic and strategically sensible in light of market and client expectations."¹⁰ Many of Hogan Lovells' peers have

followed similar paths, including WilmerHale, Littler and White & Case, saving up to 30% on labor and 40% on real estate expenses as a result.⁹

In 2018, Baker McKenzie announced plans to add a legal services center in Tampa, “complementing existing back-office operations in Northern Ireland and the Philippines,” according to *The American Lawyer*.¹¹ The firm expects to have 300 employees on-site by the time the center is fully operational in 2020.

For corporate law departments, outsourcing has long been viewed as a viable way to free up attorneys’ time and minimize costs. As law departments mature and bring on legal operations professionals, many realize they no longer need to handle every aspect of contract review, research or document management in house. HBR’s 2018 Law Department Survey indicates a shrinking portion of work going to law firms and an increasing amount being brought in-house or to non-law firm providers. Between 2015 and 2018, law firms’ share of law departments’ spend went from 55% to 49%, while the in-house share increased from 43% to 44% and the non-law firm share from 2% to 6% in the same period.¹²

Over the last decade, shared services models and process outsourcing have become standards in many other industries for streamlining operational activities and augmenting employee productivity. In healthcare, for instance, in the face of tight margins, higher expectations for patient care and complex regulatory compliance, healthcare organizations have outsourced functions ranging from complex claims processing and research to IT management.

HBR’s 2018 Law Department Survey indicates a shrinking portion of work going to law firms and an increasing amount being brought in-house or to non-law firm providers. Between 2015 and 2018, law firms’ share of law departments’ spend went from 55% to 49%, while the in-house share increased from 43% to 44% and the non-law firm share from 2% to 6% in the same period.¹²

Leaders that have tested these strategies are quickly realizing the benefit of working with external service providers and experts. Leading organizations are now building upon this approach, examining their operations, and identifying alternative service delivery models to amplify efficiency, increase cost-savings benefits, and align and utilize resources more effectively.

Summary

For the foreseeable future, the only constant in the legal vertical to bet on is change — and all organizations should be prepared.

By empowering leaders to streamline or outsource administrative functions, innovative organizations are benefiting from increased efficiencies and agility and are better equipped to handle rapidly changing business and client environments. By reducing the number of service providers and leveraging technology-enabled solutions, organizations are achieving optimal buying power and reducing third-party risk. With operational roadblocks cleared, organizations are able to focus their talent on creating additional opportunities to engage, develop and retain clients.

As the pace of change accelerates across the industry, leaders are finding that by making their back office someone else's front office, they are able to better align business strategies, talent and resources to achieve a competitive advantage. Those organizations that are taking immediate action are benefiting from transformation and controlling their future destiny by setting a new bar for the industry.

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LAW FIRM OPPORTUNITIES FOR CENTERS OF EXCELLENCE

Opportunity (Implementation)	Rationale	Benefits
Procurement (Easy-Medium)	Managing third-party supplier relationships is complex, requiring a specific skill set that typically does not reside in most law firms. In many firms, procurement is a cost center versus a profit center that is fully aligned with the firm's overall objectives. Leading firms are looking to managed services providers to unlock this untapped value.	• Guaranteed ROI and service level monitoring • Agile staffing model and departmental flexibility • Access to competitive market intelligence and subject matter experts • Third-party risk mitigation and operational efficiencies
Research + Information Services (Easy-Medium)	The law firm library presents tremendous opportunities and challenges. Highly targeted information is increasingly required by firms to compete for new business, as well as retain and grow existing clients. Modern library services integrate with competitive intelligence, marketing and business development initiatives, and support specialized practice groups and individual attorneys. Traditional libraries' budgets are under siege and have limited capacity to meet evolving internal and external stakeholder demands.	• Holistic and harmonized approach to research services • Coordinated and fully integrated service delivery • Increases efficiencies and utilization of the firm's information resources • Cost reduction and substantial purchasing improvements • Minimizes transactional responsibilities for the library
IT (Medium)	Regardless of size, most firms face the same technology demands, regulatory pressure and client service expectations. As competition intensifies, law firms are challenged to keep pace with the evolution of technology, while addressing end users' and clients' expanding IT needs. In the battle to balance service offerings with budget, staff and skillset, leading firms are partnering with third-party providers to achieve optimal balance around IT cost, risk, security and service levels.	• Increases efficiencies and service level while mitigating risk • Reduces and/or eliminates major capital investments • Increases responsiveness, service stability, reliability and recoverability • Provides cost predictability and increased value of spend for higher-quality service • Nimble approach for faster response to changing market and business conditions

LAW FIRM OPPORTUNITIES FOR CENTERS OF EXCELLENCE (CONTINUED)

Opportunity (Implementation)	Rationale	Benefits
Finance (Medium-Hard)	Given corporate clients' increasingly stringent and complex billing arrangement criteria, law firm finance departments struggle to identify and avoid short pays for non-compliant billing. Finance (e.g., accounts payable, billing and collections), and specifically billing, is becoming a growing pain point for firms that have legacy staff that predate e-Billing or AFAs. Turning to a managed service provider with expertly trained staff can provide necessary relief.	• Transfers delivery risk associated with billing to third-party provider • Agile staffing model and departmental flexibility • Reduces overall investment and ongoing operating costs • Delivers service to attorneys and law firm's clients in a coordinated and fully integrated fashion from billing through collections
Client Matter Lifecycle (Hard)	Managing departments and processes along all avenues of the client matter lifecycle (e.g., new business intake process through the gathering of client feedback at the end of the matter) requires specialized skill sets in various departments, including legal support, new business intake and conflicts, billing and collections, and records. Due to the difficulty of recruiting skilled candidates to fill these positions, many firms are looking to managed services providers to streamline processes and increase efficiencies in legal support.	• Geography-agnostic talent pool to lead and manage teams • Creates a stable team environment • Consistent and efficient processes • Transfers risk associated with legal support to third-party provider

LAW DEPARTMENT OPPORTUNITIES FOR CENTERS OF EXCELLENCE

Opportunity (Implementation)	Rationale	Benefits
Invoice Review (Easy)	As law departments grapple with growing legal demand, attorneys must juggle significant competing priorities. By leveraging managed service providers to assist with invoice review, law departments allow attorneys to remain focused on higher value tasks.	• Provides a more consistent, comprehensive review process • Leverages dedicated resources to ensure potential savings are captured and non-compliant billing is addressed • Ensures billing guidelines are consistently enforced • Increases the reliability of data analytics and more thorough invoice review procedures
Contracts (Easy-Medium)	Contracts are the lifeblood of any organization and continue to be an area requiring significant legal resources. Many law departments are looking to centralize contracting processes through centers of excellence/shared services, and some have chosen to outsource specific contracts and types of functions to a managed service provider.	• Centralizes contract lifecycle management — from request processing/intake and triage, to drafting and escalation, as well as review, approval, execution and obligation management • Improved cycle times, consistency and increased compliance
Legal Operations (Medium)	With the expectation that law departments exercise high levels of financial and operational discipline, more companies recognize the value of investing in a legal operations function. Given law departments' struggle to add new headcount, many are contracting legal operations providers to supplement existing teams.	• Provides tools and templates to support departments' needs • Scalability to match demand without the fixed cost of additional headcount • Best practices are applied through all departments • Provides consistent output of key operational deliverables, metrics and reports • Technology can be scaled and refined in real-time

LAW DEPARTMENT OPPORTUNITIES FOR CENTERS OF EXCELLENCE (CONTINUED)

Opportunity (Implementation)	Rationale	Benefits
Discovery (Medium-Hard)	The time and cost associated with e-Discovery continues to grow with the proliferation of email and associated documents. Though law departments once performed the time- and labor-intensive task of document review, service providers are now the norm, offering dedicated review teams in lower cost locations to drive cost savings. Technology has also become a more prevalent part of the process, with machine learning and natural language processing technology maximizing efficiency and minimizing expenses.	• Optimized review process • Billing on a cost-per-document/page basis or hourly model • Improved accuracy and speed of review • Increased precision of decisions regarding document responsiveness and privilege • Predictable pricing models with e-Discovery budgeting
Intellectual Property (Hard)	Law departments that manage large intellectual property (IP) portfolios are finding their spend and internal headcount under the microscope. To augment efficiency and cost savings, many IP teams are looking at alternative ways to deliver services. While their initial focus is often on reducing dual/shadow docketing between outside counsel and in-house staff, many law departments have also taken a close look at outsourcing their docketing and IP operations entirely. These departments need scalability and lower costs, while maintaining or increasing quality.	• Scalability based on the filing volume driven by the enterprise • Reduces redundant/dual docketing between outside counsel firms and in-house staff • Leverages experts that work across the industry/organizations and are constantly evolving to stay in-line with best practices

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COVID-19 Supply Chain Response Plan for Law Firms

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Introduction

The COVID-19 virus is challenging law firms, in terms of both health and economic impacts. With the support of their procurement functions, however, firms can navigate the supply chain issues they face in the immediate environment, as well as prepare for ongoing expense management as the legal industry emerges from the current situation.

First, the good news: in several ways, the legal sector is better situated than many. Legal professionals have a [lower risk of virus exposure](#) than many other professionals, according to the *New York Times*; law firms have a relatively evolved remote working environment, to facilitate a firm-wide work-from-home mode; and firms' supply chain is mostly regional or local, with limited critical items.

Nevertheless, the current and future challenges are very real. HBR advocates a three-step approach for law firms and their procurement teams managing their supply chains and expenses in the new environment:

- **Step 1** - Align with the firm's immediate needs, including work-from-home
- **Step 2** - Understand vendor terms and flexibility; proactively identify expense management opportunities to support potential firm needs
- **Step 3** - Implement an expense management program to proactively counter an anticipated business downturn

Following are guidelines related to each of those steps.

It is important for all firm responses to be aligned in order to achieve the best outcome.



Align With Immediate Firm Needs and Work-From-Home Environment

The first step, of course, is to address immediate needs, including those related to a fully remote workforce. The current situation requires the entire firm to adapt to a new way of working. To most successfully support this new environment, procurement must (1) ensure that it is aligned with the firm's overall strategy and planning and (2) determine how it can best meet the firm's specific immediate needs and work-from-home environment.

Alignment With Firm Strategy and Planning

When sudden change occurs, there can be a tendency to react immediately on a one-off basis. It is important, however, for all firm responses to be aligned in order to achieve the best outcome. The procurement team should therefore make sure its efforts are aligned with the firm's immediate direction and priorities. Following are three questions procurement leaders should ask themselves at the outset:

- Have you connected with your firm's **business continuity leader** and aligned on the firm's overall response to COVID-19?
- Have you connected with **key leadership** (CIO, CFO, CAO, COO, etc.) to get their views and offer assistance?
- Do you have clear **direction on your priorities** and a **mechanism to report on progress**?

Supporting Immediate Needs

With an understanding of priorities, the procurement function can work on adapting its efforts to the new way of working. Following are some sample questions procurement leaders should ask themselves to ensure they are supporting the firm's immediate needs and new work-from-home environment:

- Have you helped procure the necessary **equipment and services for the remote workforce**, e.g., more laptops, IT peripherals, telco bandwidth, RSA tokens?
- Have you help expand any **audio/video conferencing** services?
- Have you helped establish or update your firms **employee notification service**?
- Do you have **home address information** for all employees, as well as the ability to dropship?
- Do you have a plan for **eliminating the need for paper in procurement transactions**, for example, using an automated clearing house (ACH) instead of checks for payments, and electronic signature technology such as DocuSign instead of physical contracts?
- Have you helped procure hand sanitizer, gloves, or other **preventive/protective gear** for those firm employees who must leave their homes to perform their work?



Step 2: Understand Contract Flexibility

Once the firm's immediate needs for the new environment have been considered, the next step is to review key near-term agreements to understand what flexibility, if any, they have, and to prepare for ongoing needs in the new environment.

Two critical components of this second step include (1) evaluating the flexibility of key agreements that impact the immediate working environment, and (2) monitoring current expenses to identify the necessary adjustments.

Flexibility of Key Agreements

The COVID-19 virus and the new work-from-home environment will affect a number of services for which agreements are in place. Events need to be canceled or postponed, services at the office will become unnecessary or need to change, and more. Review the terms and conditions of those agreements to understand the level of flexibility for each.

Following are examples of some of law firms' key contracts that may be affected by the current situation:

- Upcoming events
- In-process construction
- Food services and catering
- Travel agency
- Facilities-related agreements, e.g., janitorial, plants, landscaping, pest control, coffee, etc.
- Messenger, mailroom and document production
- Gym and child care
- Administrative support, e.g., reception, security, conference services
- Printer/copier leases and maintenance
- Medical services
- Other outsourced services

Monitoring and Adjusting Expenses

In addition to reviewing contracts, the firm and its procurement function should monitor current expenses and make specific adjustments that will help address its needs in the new environment. Following are a few areas of expenses to consider monitoring for necessary adjustments:

- **Updated sourcing and negotiation.** Are there categories of spend that have not recently been strategically sourced or negotiated? If so, take a look at what new sourcing strategies or re-negotiations you can undertake.
- **Product substitutions.** Create a list of products and services that could replace higher-cost (or unavailable) items.
- **Demand reduction.** Based on updates to firm guidelines (see Step 1 above), create a prioritized list of areas where demand could be reduced. (See Step 3 below.)
- **“Low-hanging fruit.”** Identify and make a list of services and products where immediate expense adjustments can be made.

The COVID-19 virus and the new work-from-home environment will affect a number of services for which agreements are in place.



Step 3: Implement an Expense Management Program

Some level of economic downturn is inevitable in the aftermath of COVID-19, so it is important for firms to focus on managing their expenses in the longer term. Once the firm's immediate needs and priorities have been addressed, it is therefore time to develop and implement an ongoing expense management program, targeting recurring cost savings. The four major elements of such a program are contractual flexibility; demand management; increased centralization; and enhanced controllership.

Contractual Flexibility

Firms must understand the flexibility, or the constraints, contained in their existing third-party contracts, as well as negotiate as much flexibility as possible into new contracts going forward. Determining key terms to focus on and developing standard terms and conditions can help protect a firm during an economic downturn. Following are four key clauses:

- **Termination for convenience.**
A termination for convenience clause permits early termination without penalty.
- **Business downturn clause.**
A business downturn clause minimizes impact during a downturn by allowing for adjustments in usage or quantities and/or in amounts of spend.
- **Payment terms.**
Longer payment terms allow for greater payment flexibility, thereby allowing better cash flow management.
- **Term length.**
The desired term length depends on a variety of factors. A general rule of thumb is that a longer term is beneficial if the contract includes termination for convenience and/or business downturn clauses; otherwise, a shorter term is preferable.

<u>Master Services Agreement (MSA)</u>	
1. Services Provided:	_____
2. Payment:	_____ _____
3. Product Warranties:	_____
4. Indemnity:	_____ _____
5. Limitation of Liability:	_____ _____
6. Term & Termination:	_____ _____
7. Business Downturn:	_____ _____
8. Miscellaneous:	_____ _____
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

Demand Management

Demand management involves planning for and managing the demand for products and services. Particularly in an economic downturn, it is important to evaluate opportunities for cost and service efficiencies through methods such as supplier consolidation (allowing a firm to leverage buying power and better manage service and product delivery) and changing the products or services used.

Some categories of law firm spending provide greater opportunities for demand management, depending on how critical they are to the firm's ongoing business and operations. The illustration below depicts a continuum of opportunities for demand management, from areas where there is low opportunity (e.g., attorney bar dues, taxes, insurance) to areas where there is greater opportunity (e.g., events and parties, promotional products, etc.)

LAW FIRM DEMAND MANAGEMENT OPPORTUNITIES



Increased Centralization

Increasing the centralization of activities and operations related to contract review, expense management and more will also help firms achieve recurring cost savings. Centralization aids efforts to standardize contract terms and conditions; allows a firm to leverage greater buying power through consolidation of purchasing across departments and offices; and can also help make the best use of a firm's internal resources, potentially freeing team members for other work or, if necessary, reductions in force.

Enhanced Controllershship

Finally, consistent enforcement of the firm's expense management efforts is critical to maximizing their effect. Steps for enhanced controllership include implementing policies and procedures, incorporating proactive budget tracking, engaging in financial hygiene and controlling accounts payable to actively control costs.

- **Policies and procedures.** Create and implement comprehensive expense management policies and procedures, including how compliance is insured and tracked. Be sure to promulgate the new policies and procedures firmwide and educate employees on their meaning and impact.
- **Budget tracking.** If the firm does not already have such, implement proactive budget tracking, including a regimented process for how budget savings are captured and realized.
- **Financial hygiene.** Enhance the firm's visibility into its projected liabilities; centralize the intake of firmwide invoices; and adjust the firm's payment timing from daily or ongoing to a fixed cycle.
- **Accounts payable controllership.** Implement measures to control accounts payable, such as restricting the addition of new vendors; requiring that all spending over a specific threshold (e.g., \$100,000) be sourced by the firm's purchasing office; and requiring multiple levels of approval for spending over a specific threshold (e.g., \$20,000).

Conclusion

There is no question that the current environment is challenging for law firms, as they work to adapt to the new working environment and plan for a likely economic downturn. Prioritization and planning relating to the firm's sourcing and supply chain are critical, not only to meet the firm's immediate supply and service needs, but also to ensure recurring cost savings. By aligning with the firm's priorities and immediate needs, understanding the firm's existing contractual flexibility, and implementing an ongoing expense management program, law firms and their procurement functions can understand and take control of their expenses to best support the firm's ongoing operations in difficult times.

Connect With Our Experts

If you would like more information about law firms' event-related supply chain response, developing an expense management program or other law firm vendor governance issues, please contact us.



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HBR Consulting (HBR) delivers advisory, managed services and software solutions that increase productivity and profitability, while mitigating risk for law firms, law departments and corporations. As trusted advisors with deep industry experience, clients partner with HBR to achieve significant, sustainable results.

OVERVIEW

SpendConnect is a software-enabled service that was designed from the ground up by leading procurement professionals to bring enhanced vendor governance solutions to the legal industry.

Now more than ever, law firms are facing pressure to reduce third-party risk, control costs and improve operational efficiencies. As a result, executives are seeking meaningful data to drive decisions that will have a significant impact on their firm's bottom line. With an extensive understanding of the unique needs of the legal industry, HBR developed SpendConnect to bring actionable insights to law firms to:

- Lower their firm's risk profile
- Achieve significant cost savings and increase profits-per-partner
- Free up internal resources to focus on higher value work

KEY BENEFITS



Service Focus

Our unique services-first approach ensures active support of ongoing projects to help law firms continually pull answers out of data and consistently manage vendor contracts.



Risk Reduction

SpendConnect enables active management of vendor contracts to reduce the risk of inconsistent contract terms and uses workflows to ensure appropriate purchasing approval decisions.



Cost Savings

SpendConnect streamlines visibility into vendor spend, allowing for decision makers to decrease off-contract spend and increase discounts / incentives.



Increased Efficiencies

Automated reporting and self-service dashboards with KPI data allow stakeholders across geographies and departments to easily access the reports they need, when they need them.



Expert Cleaning

Unlike spreadsheets or other custom solutions, all SpendConnect source data is cleaned, filtered and curated by experienced legal technology experts.



Proactive Insights

Easy-to-interpret visuals showcase the story behind the data to empower more strategic decision-making across the entire firm.

“SpendConnect has allowed us to fully nationalize our contract and spend management for the first time. The platform is highly intuitive and well designed, and having the ability to link contracts, spend actuals and budgets is invaluable. The reporting facilities are outstanding and provide us the ability to easily generate KPI reports across spend cycles and within categories across our offices and functions.”

Jules Cranwell

Chief Administrative Officer
Borden Ladner Gervais

LAW FIRM SAMPLE USE CASES



Centralized contract management. SpendConnect ensures contracts are captured in a consistent manner with support for metadata extraction, while also linking a firm's annual spending and budgets to monitor compliance and results.



Streamlined reporting. SpendConnect integrates any source of data and streamlines metrics from various systems into a single dashboard.



Vendor risk mitigation. SpendConnect was designed to help guide firms through the vendor management process – from onboarding/intake through to contracting and spend management – the system identifies appropriate risk metrics so firms can effectively manage vendors.

ABOUT HBR CONSULTING



**Trusted advisors with
35+ years market expertise**



**300+
professionals**



**U.S., UK +
Canada footprint**



**Am Law 250 + Fortune 1000
expertise**

Industry thought leaders:

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GET STARTED

To learn more, visit our website at hbrconsulting.com or schedule a demo by contacting:

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