

## COVID-19 and Law firms: Do you have a plan for when government support ends?

Law firm leaders' thoughts should now be turning to life after lockdown. While some firms may be busy and looking forward to an excellent 2021- especially those with strong litigation practices, the **most dangerous** time for many firms will be at the end of the lockdown period, when the furlough scheme ends but when there may be more work and opportunities around which will need funding.

To service the increased work, to unlock these opportunities and to pay deferred liabilities such as VAT, a clear, quantified plan will be needed to provide the required working capital to do so.

And even the leaders of the most successful firms are looking at their current business models and asking:

- What are going to be the key issues and challenges we will face?
- What will be the right shape of business for us in the future?
- Will our support structures be capable of managing the current disruptive change or will they need to be replaced or overhauled?
- What should our people be doing differently?
- How should professional support be configured and made more cost-effective?
- Where should we outsource and where should we deliver using permanent employees?
- Do we need every service on a full-time basis?
- Where should we digitise?
- Do we still need all our physical assets and offices and how should they be configured?

In this bulletin we look at some of the important issues relating to **professional support and operational platforms** likely to emerge post-COVID19. In previous downturns these were ruthlessly cut back- with cost savings going straight to the bottom line and improving profit in the short term, although at significant cost to businesses longer term.

However, law firms are now often operating with less "fat" than in 2008 and the Great Financial Crisis and a simple "slash and burn" approach is unlikely to yield best results. They are also damaging in the short term to cash flows through having to pay for redundancies. A more nuanced approach may now be required because, for example, there are now technology solutions requiring investment that will enable more efficient and productive working practices, including (for example) enabling cash flow forecasting and pricing decisions to be automated so allowing professional support to focus on higher added value actions.

Of course, every law firm is different and needs a tailored approach. As people who have run law firms, we outline below our approach which we hope will be helpful to you. If you would like to discuss, please contact us.

### **Step 1: What kind of firm will you be in 2021 and beyond?**

*"Prediction is very difficult, especially if it's about the future". Nils Bohr, Nobel laureate in Physics.*

We therefore recommend running scenarios – a series of “plausible futures”- and decide how you will become a winner in different situations. This should include culture and its impact- for example, if you decide that you want to be a law firm run by lawyers, can you afford to take your best revenue-earning partners and put them into “management”- or is it more cost effective to employ professional support to manage certain functions? An independent facilitator can help you challenge preconceptions and also bring in external best practice.

It should also include your “target operating model” for example, for office space (e.g. what office space will you need in the new normal?) and technology. Where should your support be based- within UK in a lower cost location, in your existing office or elsewhere?

Running scenarios and planning accordingly also builds agility into the law firms and increases your chances of being able to say, with Churchill *"I always avoid prophesying beforehand because it is much better to prophesy after the event has already taken place"*.

### **Step 2: Zero based budgeting.**

If you were building your law firm from a blank sheet of paper, what would you do? Some new law firm start-ups are employing support staff on a part-time, flexible basis and achieving significantly higher margins. There is likely to be more demand from people to work flexibly post the 2020 experience. What quality of people will you need- and ask yourself if your people are right for the future? **Do not duck the tough decisions - your business will pay the price.**

Overheads should of course always be kept under tight control. However, how can law firms ensure they are ‘running lean’?

Every individual item of overhead (and particularly the cost of people which is the largest single overhead) should be closely analysed regularly and the following questions asked:

***Is this overhead (including our people) necessary for the efficient and profitable operation of our firm or could we do without it or use it less?***

***We know we must have [this overhead] but how can we reduce the cost of providing it?***

If a ‘cost-busting’ zero-based budget analysis is carried out, many firms will be shocked to discover just how much unnecessary overhead cost they are carrying and which, at times such as this, they can ill afford.

### **Step 3: With your new structure, do you want to make or buy? Which parts of the platform do you want to have dedicated and owned by yourself and which do you want to outsource?**

We have seen law firms with out-sourced IT, Reception, Catering, Facilities, Finance, Risk and Compliance and Business Development. We are also seeing law firms co-operate on shared services.

The traditional model of law firms is changing as are the technology opportunities. You as leaders and fee earners are the clients of your professional services teams - how do you want to buy to get the right quality at the best price that also has sufficient resilience?

#### **Step 4: Gap analysis.**

Looking at your current and possible future structures, how will you get there? Again, hard decisions may need to be made. Key business services should as a minimum, cover Finance, Risk / Regulatory compliance, IT, HR, Training, and Business development.

In all of these key functions, can you afford to carry people who may have delivered for you in the past but where the business has outgrown their skills?

A law firm, if it is to be agile and able to deliver continuous change and innovation to ensure it keeps ahead of its rivals, will need to be made up of people (including in particular those in business support) who are willing to innovate and work differently to achieve its objectives, including:

- Being prepared to change working habits
- Being prepared to learn new skills
- Embracing performance management

For example, what should our finance manager / finance director be doing? Employing a good quality and qualified finance person is likely to make much better economic sense than having a lower quality and 'cheaper' finance person overseen by an expensive and financially untrained equity partner. Employing an FD who understands what is needed to be done to get the firm into good financial shape and who can command the trust and respect of the partners is likely to be both a more successful and a more cost-effective way to resource the finance function.

Another example is whether a better and more cost-effective cashiering function can be offered? For example, instead of employing our own staff could this vital function be outsourced in some way to provide a more effective and reliable service? Or could we pool our resources with other firms to provide such services from a central resource at much less cost?

This leads into...

#### **Step 5: Action and Implementation plan**

This is where many law firms' strategies fail to deliver. Who will deliver what by when? What are the priorities and what is the critical path?

You will also need to invest time in communicating and getting buy-in to the Plan- make sure you have your stakeholders (and your electorate) onside. It will also need to be driven- and owned by the top team.

These steps if taken, will lead you to build a law firm with higher quality people and a more cost-effective business support team to **help you deliver your vision.**

If you would like to discuss further and get our advice, contact either Paul Browne or Peter Scott.

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