



A Law Firm Playbook for Building Stronger in 2023

Preparing for an Economic Slowdown

Introduction

Firms that deploy a **strategic offense** that positions them for growth will be **best equipped** to excel as we emerge from economic slowdown.

A looming economic downturn has clouded law firms' 2023 planning. After two strong years of profit driven by pandemic-related anomalies, firm leaders are facing slowed demand for services, pressure on rates, and an unstable talent landscape. But the current environment nevertheless provides a unique opportunity. Building on recent fundamental changes in how firms think and operate, firms can take actions that can not only substantially improve their profit margins, but also build stronger for the future.

2022 ended on a challenging note for law firms: at the end of the first nine months, overall demand was trending downward, net income was down 7.3%, and profits per equity partner were down by 8.5%, [according to one report](#). Meanwhile, firm expenses continued to increase, [with another report](#) citing a 14.3% increase in expense per FTE between Q1 2020 and Q3 2022.

The outlook for 2023 is cloudy:

- Demand:** Demand for services will be uneven by practice area. The Federal Reserve policies designed to beat back inflation have dampened capital markets, M&A, and the technology and real estate sectors.
- Rate pressures:** Seventy-nine percent of participants in our fall 2022 Law Department Sounding Board anticipated corporate mandates for cost reduction to impact their operations and spend on external services. Polling of corporate executives in a webinar we conducted in December 2022 indicated that most had received significant rate increase requests from their firms, and that they planned to push back in a variety of ways.
- Talent:** Although there are signs of the hyper-hot labor market cooling in 2023, the impact will be uneven and of uncertain duration. On the people side, the hybrid work model remains a vexing challenge for firms.
- Increased costs:** The Fed's interest rate policies have been successful in slowing the economy, with inflation appearing to be slowly receding. Nevertheless, high costs continue to erode margins as firms return to the office and restart travel.

As they enter 2023, many firm leaders have taken strong steps, including workforce reductions and reduced 2022 bonuses, and are contemplating the traditional blunt mix of cutting the firm's spending and workforce, often spread across the organization. Given the uncertainty about the projected economic downturn's timing, breadth, duration, or impacts, we counsel caution in the actions that law firms take in 2023, with care not to put themselves at a future competitive disadvantage. Traditional preemptive countermeasures can damage marketplace reputation, client relationships, talent retention and recruiting, and firm culture. This is a time for taking stock, leveraging change, and playing offense. Firms that deploy a strategic offense that positions them for growth will be best equipped to excel as we emerge from economic slowdown.

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The “Building Stronger” Playbook

To help law firms navigate through these challenging economic conditions and position themselves for future growth, we recommend a potent mix of initiatives to accelerate down the field in 2023 and win in the years that follow. The game plan is designed to play offense: improve performance, reset the firm’s cost structure, and build capabilities for the future. Our playbook encompasses proven initiatives addressing practice group profitability, revenue cycle management, alternative service delivery, legal administrative assistant model modernization, real estate optimization, and vendor governance.

While executing a playbook to **build stronger**, it is critical for firms to focus on **client value and experience**—deepening client relationships at every key touchpoint, from initial contact and onboarding through service delivery, matter conclusion, and client feedback. The firms that execute the Building Stronger playbook with this “client first” focus in mind will position themselves for **enduring success**.

Play #1

Practice Group Profitability

There is an expectation among most law firm leaders that lawyer billing rates will be under pressure in the year ahead. The more nuanced reality is that realized rates will be inconsistent across practice groups in the firm, forcing firms to make hard decisions about how to manage rate-pressured practices. Simply asking lawyers to raise their rates (which is often out of their control), adjust their staffing leverage (which assumes there are sufficiently specialized resources), or simply “work harder” (which presupposes work is available) can be both futile and counterproductive without a practice-specific path to achieve these goals. Taking a people-focused, hands-on approach to improving profit margins can pay dividends for the firm and also help to protect the culture of the firm across all practices.

Specific action items firms can take include:

1. Performing a practice-specific, delivery-based financial analysis of the profitability within each practice;
2. Identifying “bright spots” of success (e.g., specific practice group, office, etc.) for key learnings and “rising tides” of opportunity across the firm;
3. Engaging in process improvement to try to deliver client work more efficiently and profitably; and
4. Implementing Key Performance Indicators and measuring them consistently to benchmark profitability improvement.

The opportunity with this play is to map financial metrics with specific service delivery interventions the firm can take to improve the performance of its practices. This approach enables the firm to improve the profitability of individual practice groups without tearing the fabric of the firm. We have seen firms improve margins 10-25% year-over-year with a focus on efficiency and creative delivery.

Play #2

Revenue Cycle Management

Eight in 10 law firms said that billing process improvement was a key priority for them and six in 10 identified accounts receivable as a key priority in our 2022 Law Firm Billing and Revenue Cycle Survey. Maximizing realized revenue will become even more important to firms in the face of a potential economic downturn in the year ahead, when issues such as write-off leakage and collections can make a measurable difference in financial performance.

The end-to-end client matter lifecycle should be evaluated to fully understand the billing and collections issues the firm is facing. The first step toward improving revenue cycle management is to focus on standardizing and streamlining processes, enabled by technology tools and analytics. Once that fundamental need has been addressed, the next step is ensuring tighter enforcement of firm policies and increased adoption of revenue cycle processes across the firm. The third step is to optimize the use of revenue cycle resources through refining roles and clarifying responsibilities within the organization.

If this play is properly executed, it will result in more consistent and automated processes, which ultimately translates into more productive attorneys who are less frustrated with the amount of time spent reviewing time entries and prebills and chasing down collections. Other common outcomes from this area of focus include improved client satisfaction, attorney satisfaction, and better revenue capture for the firm (commonly in the 5-10% range and often in the \$ millions due to minimized write-offs, faster cycle times, and freed up attorney capacity).

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Play #3

Alternative Service Delivery

The pandemic led us to reimagine the who, how, and where of legal and business support services to enable the firm lawyers' improved effectiveness. The third play for building stronger in 2023 builds on that momentum, shifting from traditional siloed approaches for delivering support services to a more holistic view that leverages alternative approaches to improve effectiveness and drive efficiencies. It is all about enhancing attorneys' ability to better serve their clients.

Through a combination of virtual delivery, shared services, and third-party service delivery, alternative support delivery models can enhance capabilities, leverage specialized expertise, provide resourcing flexibility, and substantially lower the firm's costs. Alternative delivery is impactful across all business support services, with the greatest activity in IT, office operations, procurement, finance and accounting, library and research, and HR. Of note are the efforts of leading organizations across the industry to reset legal administrative assistant services (see Play #4 below).

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ability to better serve their clients.

Examples of areas for innovation in the delivery of legal support services include business and competitive intelligence, data stewardship and quality, business acceptance teams including client research and conflicts analysis, data analytics, e-discovery, attorney contractors, document and contract drafting/revisions, and invoice/billing.

This play takes advantage of a greatly advanced and matured external provider marketplace; strong workflow, work management, and virtual enabling technologies; and advanced data analytics. Beyond improving the effectiveness of services, in our work we have seen the opportunity to reduce annual costs by 20-40% or more, from a combination of centralization, scale economies, location cost arbitrage, virtual delivery, third-party services, real estate footprint reduction, stronger governance, organization redesign, and processes standardization and improvement.

Play #4

Legal Administrative Assistant Model Modernization

Modernizing the legal administrative assistant (LAA) support structure has been discussed for years in the law firm marketplace. 2023 is the time to implement new roles and technologies to match the evolved post-pandemic ways that work is performed in law firms. With each incoming associate class, the new attorneys being onboarded are proving themselves to be increasingly more self-sufficient and comfortable with leveraging technology, further emphasizing that the time is now.

There are six key components for operationalizing the transformation of the LAA model:

1. Reimagine the LAA role and move away from the historic “jack of all trades” expectation that has defined the role for past generations;
2. Unpack the LAA workload by disaggregating time spent on various tasks and evaluating the most effective ways (via creation of new roles, shifting of work to other functions, and enhanced processes and technology) to deliver those services in the firm;
3. “Up-skill” the existing LAA staff members by providing the training needed to equip them for higher-value work;
4. Move towards a combination of shared resources and practice-centric service to breakdown inefficiencies in office-based approaches to LAA support;
5. Design best-in-class workflows to most effectively manage LAA resources and standardize the new model; and
6. Introduce new technology to help intake, manage, and perform work across the firm.

The opportunity with this play is to capitalize on changed ways of working and develop a sustainable support model that meets the evolving needs of the firm. Benefits include enhanced support capabilities; more efficient, standardized service experiences; and targeted investments in support staff to achieve the greatest value for the firm. By investing in support, firms are seeing leaner ratios of staff to attorneys (1:6+) and freeing up attorney time spent (commonly 4-8%) on administrative tasks to re-dedicate to revenue generating work.

Play #5

Real Estate Optimization

For the considerable experimentation, consternation, and debate over “work from home vs. in the office” across the industry, it is clear that the hybrid work model is here to stay. Considerably behind other professional services firms in workplace practices and design, law firms are coming to realize the substantial benefits from resetting the workplace and optimizing their real estate use and commitments.

Leveraging new ways of working creates a tremendous opportunity for law firms to improve employee retention and increase productivity, while simultaneously enhancing collaboration and culture. It also presents a huge opportunity to reduce one of the largest firm costs, through a combination of reducing a firm’s overall real estate footprint and taking advantage of favorable real estate markets – basically, a reset of the balance of demand and supply.

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At the foundation of this play is the firm’s larger practice and market strategy, including a plan for the delivery of legal and support services. Rethinking ways of work for attorneys and support services helps define the demand for office space. The firm’s current leases frame the current space supply, with work policies/programs, design standards, and enabling technologies applied to refine that supply. Our Workplace of the Future surveys have found 75% of law firms to be substantially paring space, with reductions in the 20-35+% range for over 40% of the firms. The space reductions, in combination with favorable real estate market conditions, result in substantially lower annual real estate costs.

Play #6

Vendor Governance

Strong governance of a law firm's vendors is becoming a standard business function in the industry. Vendor governance enables a firm to proactively address procurement and vendor management to control costs and improve margins, without adversely impacting clients or employees. As we head into a potential economic slowdown in 2023, effective vendor governance can be a major contributor to the bottom line. Assuming a 35% gross profit margin for a firm, \$500,000 in vendor cost savings is equivalent to roughly \$1.5 million in revenue, when it comes to firm profitability.

A focused, managed vendor governance program starts with establishing the firm's goals and designing a strategy, then dives into a granular understanding of the firm's vendor spending and contractual obligations. The third step is to create a vendor governance plan and a detailed roadmap to implement the strategic approach. The final step is to execute a vendor governance program and measure results against the law firm's business goals to make sure there is clear alignment.

The opportunity with this play is to offset increasing vendor costs, which are being fueled by inflation, through a proactive plan to centralize procurement activities. The benefits to the firm of a managed vendor governance program include the realization of substantial cost savings, as well as a significant reduction in vendor risk.

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Conclusion

While law firms enjoyed unprecedented revenues and gross margins over the past two years, there is considerable uncertainty as we round the corner into 2023. While forecasts may vary about the timing and duration of an economic slowdown, with some sectors of the economy are already cooling and indications that the demand for legal services is generally softening, law firms are challenged with how to best plan for the year ahead.

Law firms should be **prudent in the countermeasures** they plan for 2023, leveraging this playbook to choose calculated, “offensive” moves that not only can substantially reduce costs, but also position them to **accelerate into a new cycle** of economic growth.

Connect with our experts

For more information about how to design the right playbook for your firm, please connect with our experts.



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