

2021 Law Firm Procurement Priorities



Last year, in [The Top Three Priorities for Your Law Firm's Procurement Function in 2020](#), we recommended that law firm procurement offices prepare for a recession and promote the value of the procurement function to the organization as a whole. While we certainly did not foresee in any detail what 2020 would bring—a global pandemic, social justice protests and constant economic upheaval—firms that promptly implemented that advice were probably better prepared to meet the challenges of this chaotic year, while their staff may have been better protected from layoffs and cutbacks.

However prepared firms were, the uncertainty of 2020 has forced dramatic overnight changes for legal professionals. As a result, law firms are increasingly focused on developing agility and controlling costs. The pandemic has had [markedly divergent impacts across different industries](#)—the transportation and hospitality industries are down about 60 percent each, while medical technology, pharmaceuticals and software and IT services are all up to a similar degree—but this year's ever-shifting tides have demonstrated that any industry can be vulnerable, and all must be prepared.

In this year's [law firm procurement survey](#), we once again solicited inputs from procurement leaders across the country to learn how they have been meeting their firms' needs and where they plan to direct their focus in the future. From those discussions, and our own ongoing experiences with clients, HBR has selected three strategic priorities to guide the efforts of law firm procurement offices in 2021 and into the murky future that lies beyond:

1. Increase supplier diversity
2. Promote flexibility and adaptability
3. Continue to centralize the procurement function

Prioritizing these three areas will help position procurement functions for success in 2021 and beyond.

Increase Supplier Diversity

Diversity among suppliers takes many forms, from small business enterprises and businesses in historically underutilized areas to those with a majority ownership stake held by women, underrepresented racial groups, veterans, LGBTQ individuals or people with disabilities. Whatever the form, supplier diversity matters to corporate clients, which means it needs to matter to the law firms that support those clients.

Every one of the law firm procurement leaders we surveyed reported that their office handles contract review and administration. Procurement is therefore ideally situated to identify diverse suppliers, engage their services and advocate for these relationships. The procurement function can also serve as a central point for providing feedback to prospective suppliers. Yet diverse suppliers remain an untapped resource for most law firms; 50 percent of surveyed law

firm procurement leaders stated that they were taking “no formal steps” to increase diversity among their suppliers.

Increasing supplier diversity is a trend that will continue regardless of the nation’s overall economic outlook, and for good reason. Procurement leaders should give more thought to why supplier diversity matters, how they can intentionally promote inclusion and where they should start.

Why Increase Supplier Diversity: Client Demands and Better Results

Supplier diversity programs are well-established in most large corporations and in some of the larger law firms that serve them, but the majority of law firms are just beginning to embrace these approaches. Across the board, though, clients are increasingly inquiring into the extent to which their partners—including the law firms they use—practice diversity.

Clients who insist on increasing diversity are on to something. [Research has shown that diverse suppliers offer a range of benefits](#), including:

- an untapped well of creativity, as diverse perspectives naturally give rise to new solutions;
- greater resilience to supply chain disruptions through increased sourcing options;
- greater agility and adaptability by avoiding stagnant or overused suppliers; and
- decreased costs through greater competition and a wider pool of potential vendors.

In addition, supporting diversity allows organizations to maintain their ethical standards and promote their efforts to “do the right thing.” This helps organizations build stronger brands, attract new talent and retain the valuable talent assets they already have.

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How: Intentional Inclusion and Advocacy

Increasing supplier diversity requires continuous thought and intentional decisions about contracts and supplier relationships. Every point must be critiqued to evaluate whether a diverse or underutilized option is available or would be preferable.

Procurement leaders should consider creating decision trees or building in checkpoints to remind themselves to seek out new alternatives. They must also be cautious not to rely on their personal networks or existing knowledge. Identifying and engaging with diverse suppliers will likely require research and network expansion.

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Of course, diverse suppliers must still meet general vendor governance criteria, including requirements for data security and confidentiality, but procurement should ensure that these criteria are not written in such a way that they exclude or have a disparate impact on smaller vendors or suppliers. Additionally, while 53 percent of surveyed law firm procurement leaders use a preferred vendor list, that list should not be wielded in such a way to exclude diverse suppliers.

Expanding your vendor base may require additional advocacy. Look for ways that you can help diverse suppliers be more successful, whether through clear and specific feedback or even ongoing mentorship. For example, if a diverse supplier does not win an RFP, explain your decision in detail so that they can be better prepared for the next opportunity. You might also investigate ways that you can support diverse suppliers throughout any certification processes or create training programs—on your own or in concert with other firms or organizations—to nurture their progress.

Where to Start: Three Levels of Maturity

To improve supplier diversity at your law firm, identify which of the following three tiers of maturity you have attained and set your sights on progressing.

- *Level 1: Encourage use of diverse suppliers through policies.* Establish a formalized supplier diversity program. Create a diversity policy for external vendors and communicate that policy, as well as any related processes, to your staff.
- *Level 2: Build on policy to achieve 3 percent diverse spending.* First, gain an understanding of your current supplier base and its diversity. Track performance metrics for your current supplier diversity and tailor your processes and communications to reach more diverse suppliers.
- *Level 3: Create a goals-based program to increase diversity.* If your firm is at 3 percent diverse spending, you might set a goal for 5 percent diversity in the next three years. Design a strategic plan to ensure that you accomplish that goal by developing a pipeline for new diverse suppliers as well as partnership and growth opportunities for prospective diverse vendors. Make sure you are communicating consistently with your suppliers about your diversity initiatives.

Across the Am Law 100, firms spend \$20 billion a year on their various vendors. With a three percent rate of diversity, that equates to \$600 million annually; increasing that to five percent would create a \$1 billion annual investment in diverse businesses.

Promote Flexibility and Adaptability

It is an understatement to point out that the events of the past year have required organizations to react nimbly to ever-changing needs and circumstances. Law firms—rarely accused of being the most agile of businesses—have not been exempt from these dramatic fluctuations.

In the early spring, legal professionals, like the rest of the knowledge workforce, were sent home to work for what was then expected to be a short period. Gradually, social distancing efforts were expanded until it became clear that remote work would persist not for weeks but for months or even years. Travel, both business and personal, was shut down rapidly and has rebounded only fractionally. Businesses and individuals engaged in panic-buying sprees focused on cleaning supplies, gloves, masks and other personal protection equipment. Schools across the nation shut down, announced optimistic return dates and then reverted to virtual-only status, throwing a large percentage of the working population into unprecedented roles as full-time educators and caregivers. Meanwhile, COVID-19 outbreaks flared up in different regions and settings, leading to intermittent supply chain disruptions.

Nor has the coronavirus pandemic been the only newsworthy event of 2020. The United States has also grappled with a rising awareness of racial disparities and a heightened call for social justice reforms.

Amid all this change, law firms have seen their priorities shift. Office space and equipment are out; remote meeting technology, adequate home Wi-Fi, remote cybersecurity protocols and license access are in. Support personnel have seen their roles redefined as firms have sought to minimize staff cutbacks. Bonuses continue to hang in the balance at many firms. In short, 2020 has demonstrated that law firms must be prepared to instantly adapt to changing circumstances, from the way they begin their vendor relationships through their preparations for change, toward the goal of developing an agile mindset.

Initial Focus: Reviewing and Adjusting Agreements

Procurement should review its agreements with two goals in mind:

- establishing a reservoir of knowledge about the firm's existing rights and obligations and
- introducing flexibility where possible in new and existing agreements.

First, any effort to improve operations—including by enhancing agility—should be built on a foundation of accurate and up-to-date information. You cannot steer toward a destination or adjust your course if you do not know where you are to start with. By mapping existing agreements against the firm's current needs and strategic priorities, you gain a thorough understanding of the firm's contractual spend and any outstanding obligations, which lets you evaluate whether you are in a solid position or in dire need of renegotiating your contracts.

Once you have mapped your agreements, investigate opportunities to introduce additional flexibility and scalability. What can you leave open to be determined as the future unfolds? Look for areas where you can realign your service needs by changing the type or level of services you receive or by canceling agreements altogether. Be mindful of contract term length and consider adding a termination for convenience clause. If possible, identify areas where you can build in recurring cost savings rather than one-time savings. These adaptable agreements give the firm the ability to rapidly rebalance and pivot, maintaining an optimal strategic approach despite changes in the industry or environment.

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Execution: Preparation Without Overcommitting

The start of the pandemic offered an object lesson in preparation without overcommitment to an uncertain course of action. Many offices, upon sending workers home to work, prepared for a quick return to a barely changed workplace. They invested in hand sanitizer and gloves and made plans to ramp up their cleaning protocols or alternate days in the office. Yet, even now, more than half a year later, that return has not materialized—demonstrating that our line of sight into the future is no better now than it ever has been.

The point is simple: prepare for possible outcomes but hold off on an irreversible course of action until your path is confirmed or at least clearer. From local governments to schools to businesses, decisions have changed on a daily and sometimes hourly basis this year.

That is not to say that you must wait for certainty to take any action. Evaluate possible options and weigh their likelihood. Will your employees continue working remotely? Is there any lasting harm in planning for a continuation of remote work? Should you maintain office space, scale back or terminate it entirely? What technology licenses, contracts or hardware do you need to invest in to continue working remotely through the next year? Do your research, make a plan and be ready to move—but so long as you can consistently deliver service, hold off on investments that may not come to fruition.

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Continue to Centralize the Procurement Function

Centralization of the procurement function remains a key operational strategy for law firms. By consolidating procurement into a unified function, firms can realize a number of benefits, including:

- **Cost control.** Firms with a clearly defined, centralized procurement function that is thoughtfully aligned with the firm's overall strategic goals are in a better position to weather economic turbulence. The Deloitte 2020 CPO Flash Survey found that cost management is the highest priority for CPOs in the third quarter of 2020, receiving about eight times the day-to-day focus of any other area. Centralizing spending immediately improves management of costs.
- **Risk mitigation.** All spend introduces potential risk. A centralized procurement function can coordinate efforts to vet vendors and—more importantly—build monitoring and mitigation measures into their contracts. Procurement can also track vendor risk management against a standardized scale, thus identifying and discontinuing service from vendors that pose an unnecessary risk.
- **Coordination with the firm's overall strategic goals.** Procurement is in a position to ensure that the firm's contracts and services support outstanding service delivery by making the right tools available to the right employees at the right time.
- **Support supplier diversity initiatives.** As noted in the first section, a centralized procurement function can also develop the intentionality and advocacy needed to achieve diversity goals.
- **Promote flexibility and adaptability.** By centralizing knowledge and decision-making about contracts and service relationships, procurement can position the organization as a whole to rapidly pivot and adapt to changing circumstances.

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In short, centralizing procurement creates synergistic benefits by guaranteeing that the right hand knows exactly what the left hand is doing, thus enabling better coordination between its various functions.

There are three main approaches to increasing the centralization of the procurement function.

1. **Assimilate existing resources.** The firm may choose to consolidate its existing internal resources into one procurement office.

2. **Build a new department from scratch.** Rather than rearranging current resources, the firm may create a new department staffed entirely by new hires with specific skill sets. While this approach is logistically complex and requires a clear vision of the intended result, it can produce outstanding results.
3. **Outsource the procurement function to a managed service provider.** By transferring the traditional cost center of procurement to an outside service provider that uses an agile staffing model, firms can achieve efficiency, scalability and cost containment along with improved diversity and risk mitigation. Note that while this approach allows law firms to focus on the law while outsourcing the business of running the firm, it may face cultural resistance.

However you achieve it, centralization is a trend that we expect will continue to grow. At the same time, these centralized procurement offices will expand both the breadth and the depth of their associated functions, getting more involved in strategic sourcing and problem-solving, building robust diversity programs, managing ongoing contractual relationships and creating a continual feedback cycle to spur improvement.

Conclusion

This year has proved that, however much we prepare, we cannot fully anticipate what challenges the future will bring. With our current level of volatility, the future is more uncertain than ever, but we feel assured that law firms need to increase supplier diversity, develop agility, control costs and mitigate risks—and centralizing their procurement functions gives all of these goals a jump start.

Connect With Our Experts

Whatever primary industry you serve and however you have been affected by the pandemic and economic uncertainty of 2020, HBR Consulting can help your law firm achieve its procurement goals in 2021. Contact us today to get started.



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