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LAW FIRM MANAGEMENT

FALL 2020

990 Stewart Avenue
Garden City, New York 11530

t 516.288.7400
f 516.288.7410
e info@garibaldicpas.com



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GROUP

Certified Public Accountants
Financial and Management Consultants

www.garibaldicpas.com

See you at the office?

COVID-19 PROMPTS A NEW LOOK AT OFFICE NEEDS

Office space expenses usually are the second highest expense for law firms, behind personnel. It's not surprising, then, that the COVID-19 pandemic and resulting economic uncertainty have prompted some firms to take a closer look at their needs for space. Months of paying for offices that have largely sat empty have firms thinking about whether they should relocate, reduce and/or redesign.

WHERE ARE YOUR PEOPLE?

When stay-at-home orders hit many parts of the country this spring, even those tradition-bound law firms that had steadily resisted allowing remote work environments found themselves with no choice but to pivot. Many have been so pleasantly surprised with the results that it could become a lasting model, with more attorneys working at home permanently or at least regularly.

One obvious impact of such a change would be a reduced need for costly office space. Indeed, a recent survey of 222 leaders mostly from small or midsize firms, conducted during a Thomson

Reuters Managing Partner webinar, found that 72% of them expect to need less office space. Nineteen percent expect to reduce their space by more than 25%.

Technological developments have made the shift to remote work possibly more feasible than ever.

Some law firms were already planning — or weighing whether — to shrink their footprints before the pandemic. COVID-19 could expedite a move in that direction, especially if they need to implement austerity measures to cut costs. Technological developments have made the shift possibly more feasible than ever.

Many firms have been using less space thanks to the Internet, which provides easy access to the vast law libraries that for decades ate up massive square footage. The Internet also has enabled secure cloud storage, eliminating the need for rooms of filing cabinets. Advances in audiovisual tools can make large meeting spaces almost superfluous.

When attorneys do need to come into the office, they could use a shared workspace system. Powered by “smart” technologies, the



BEYOND THE BOTTOM LINE

The monetary benefits of reduced office space and greater remote work are obvious, but law firms also should consider the potential nonfinancial ramifications. For example, certain firms count on their office space to send a message about how successful they are to big-ticket clients (and top-notch recruits). Large, well-appointed offices may help generate enough business to make the higher cost well worth it.

On the other hand, younger attorneys tend to be less invested in appearances. They often value higher pay and the opportunity to work remotely more than typical touchstones of success like partnerships and luxury office spaces. They also might not respond well if their colleagues have been laid off during a rocky economy, while pricey art collections and high-end furnishings remain.

That said, mentoring has a long history in the legal industry. An upswing in remote work will lead to fewer opportunities for formal and informal face-to-face interactions and collaboration. Firms should take care not to sacrifice valuable “incidentals” by focusing solely on the bottom line.

systems let attorneys book an office for the day, similar to co-working workspaces offered by companies like WeWork.

Moreover, some firms are considering converting support staff — including secretaries, paralegals and accounting and billing employees — to full-time remote positions. It became clear over months of quarantine that, equipped with reliable Wi-Fi, quality devices and the necessary software, they can perform their jobs satisfactorily without being on-site.

IS YOUR SPACE SAFE?

The amount of space isn't the only likely change for law firm offices — the layout, design and usage patterns also may reflect safety concerns brought on by the pandemic. The trend toward open-space floor plans, for example, could increase fears about the spread of contagion.

Local governments might impose new standards for square footage per person to facilitate social distancing, as well as requirements related to the amount of enclosed space and HVAC. Air purification filters and systems widely seen in health care settings could be mandated elsewhere.

Touch-free surfaces — not just motion sensors for faucets, soap and paper towel dispensers but also voice-activated elevator buttons and automated bathroom doors — may become the expectation rather than the exception. Employees who interact with third parties, such as receptionists, might need plastic shields to feel comfortable and protected.

And that poorly ventilated coffee area or break room? It could go away, be converted to grab-and-go style or require updating to improve airflow.

CHARTING THE RIGHT COURSE

Firms that opt to reduce their space have multiple options to explore. For example, they could renew their existing leases that are nearing the end of the term, but for less space. They might relocate to smaller offices in a different location, perhaps away from the so-called vertical markets that feature highly populated high-rises and rely on public transit. Firms in long-term leases can try to renegotiate with the lessors. Your CPA can help you make the best choice for your firm's long-term financial sustainability. •

How to move your firm ahead profitably

2020 has been a year to remember — and it's not over yet. In this uncertain year, law firm management has had to wrestle with the profitability of their firms. While you can't control the economics resulting from COVID-19 and events such as the presidential election, there are a few ways firms can take control of profitability.

TAKE CONTROL OF FINANCES

Poor billing, receivables and payables management can hinder profitability. Delays in issuing and collecting on invoices, for example, often lead to costly write-offs and write-downs.

To streamline the process, consider prebilling your clients for major expenses such as expert witnesses, depositions and travel. Then bill clients as soon as a matter is completed, regardless of the result, as well as at appropriate milestones (for example, after a successful pretrial motion).

If your clients delay paying their bills, follow set schedules for following up with them.

When clients submit their payments, process them immediately, making daily deposits, rather than letting payments stack up. If your clients delay paying their bills, follow set schedules for following up with them. You might cite quarterly and year-end bank reporting as a reason to reach out on delinquent payments. Consider offering one-time discounts as incentives for clients to satisfy aged receivables, and encourage payment by credit card.

As for payables, schedule your payments for close to the due dates so you benefit from any early payment discounts without transferring



funds early. If they're available without additional fees, take advantage of deferred payment options. And regularly ask vendors if it's possible to negotiate lower prices.

GET TO KNOW YOUR CLIENTS

Existing clients can offer you more work, but they may also be a drag on your profitability. Know the difference.

Cross-sell to existing clients. It's a marketing truism that it's easier and more cost-effective to generate new work from an existing client than it is to land an entirely new client. That's where cross-selling comes in. Train your attorneys to recognize when clients might need additional services so they can refer those clients to other lawyers in the firm. Give your attorneys a primer on your firm's specialties and services to help them identify cross-selling opportunities. Some might be resistant to sharing "their" clients, so explain the benefits of cross-selling for the firm and, ultimately, their own bottom lines. You also might try tying cross-selling to compensation.

Consider reducing your number of clients. This tip may seem counterintuitive, but your firm may have clients who take up time and resources without returning profits that justify such expenditures. Don't take on such clients'

unprofitable matters hoping that they'll bring you work that makes it all worthwhile.

Instead, focus on having fewer but more profitable clients. Working with a handful of large clients with continuing matters and numerous needs can develop a deeper understanding of your clients that leads to lucrative cross-selling opportunities, as well as a stronger sense of teamwork with the clients and within your firm. You'll also likely reduce costs related to client acquisition.

WAYS TO CUT COSTS

One of the easiest ways to improve profitability is to reduce your costs. For example, alternative staffing arrangements such as flex-time, part-time or temporary attorney arrangements can all result in lower staffing costs. Such options can give firms access to top-notch attorneys who aren't necessarily interested in the traditional partnership track, without some of the costs associated with full-time lawyers. Outsource nonattorney services such as accounting.

Another area to consider is technology. Software, cloud services and other new technologies

provide a wealth of options for increasing productivity, improving practice management and saving time on standardized tasks and forms.

Law firms that specialize in specific practice areas often see greater profits than those that take a more scattershot approach. Attorneys and paralegals who specialize in an area generally work more efficiently and effectively, producing high quality work at a greater pace and for higher fees. Even small firms can benefit from dividing legal work by practice area.

Finally, review your compensation models. It may be time to move away from fixed salary compensation and incorporate a variable pay component based on outcomes and achievements. Changes to benefits also can cut costs. For example, consider increasing health insurance deductibles and employee portions of premiums.

IT'S TIME TO START

Keeping your firm profitable is an ongoing process. Implementing the ideas in this article is a good place to start. You can only take advantage of opportunities if you're aware of what to look for. •

AI takes hold in law firms

Artificial intelligence (AI) — which is defined as computers that perform tasks that typically require human intelligence — climbed out of the pages of science fiction and into the real world some time ago. But the legal industry has only recently begun to embrace its possibilities. While AI already is making an impact in so-called Big Law, it also can help attorneys and administrators at smaller firms. Moreover, as firms increasingly commoditize legal services, clients expect firms to use every tool they can to expedite work and cut costs.

POTENTIAL APPLICATIONS

The American Bar Association (ABA) has expressly recognized the growing role for AI in the practice of law. In 2019, the ABA's House of Delegates approved Resolution 112, which encourages courts and attorneys to address the emerging ethical and legal issues related to the use of AI in the field. The report recommending adoption of the resolution predicted that AI will fundamentally transform the practice of law in the coming years.



Here are some areas where your firm might consider deploying AI:

Due diligence / contract review. AI can play a major role when it comes to handling the minutiae of due diligence and contract review, where human error can delay or upend transactions. It can, for example, search for specific language in contract-heavy mergers and acquisitions and uncover problematic provisions. Natural language processing tools can extract and contextualize critical information from a company's portfolio of contracts.

AI also can find inconsistent terms or language between different drafts and documents. Attorneys would, of course, make the final decision on language. Down the road, though, AI tools could even become capable of drafting contracts within programmed parameters.

Discovery. With AI, law firms can much more easily analyze mountains of documents, briefs and files for "related documents." In some cases, this analysis can be performed without any human intervention. Where such intervention is required, you can assign far fewer attorneys than would be involved in the past. In either case, document review will go more quickly than it traditionally has, which is sure to please clients.

Data analytics. Perhaps one of the most exciting uses of AI in the legal world is in the realm of data analytics. AI enables multiple forms of analytics, including predictive (forecasting the

behavior of, for example, judges or expert witnesses based on past behavior) and prescriptive (providing advice on, for example, whether to settle or go to trial).

These types of analytics can:

- Aid in jurisdiction and jury selection,
- Assess deal profitability,
- Estimate case value, and
- Guide litigation strategies and settlement negotiations.

Attorneys also can formulate more accurate litigation budgets with the help of AI. Data analytics that incorporates past cases and invoices allow them to better understand the likely costs for specific strategies. This is particularly useful when clients require fixed-fee or other alternative-fee arrangements.

Litigation financing. AI is propelling the concept of litigation financing, too, where investors fund the costs of a lawsuit in exchange for a piece of any judgment or settlement. It gives investors a better idea of which cases are worth supporting.

THE HUMAN TOUCH

The introduction of AI to the workplace often leads to concerns about job losses, but the need for competent counsel isn't going anywhere. AI can't replace the relationships and trust that attorneys develop with their clients, nor the experience and nuance they bring to complex matters. •

Playing the long game: 4 lessons from past crises

COVID-19 is a novel coronavirus, but economic downturns are nothing new. As the world continues to adapt to the pandemic's repercussions, law firms can turn to past economic crises for some lessons about what they might expect and how they might capitalize.

1. SOME PRACTICE AREAS HEAT UP

When the economy falters, litigation, restructuring, and mergers and acquisitions historically see significant upticks. You might suspect that transactional work would drop off, but that's not necessarily the case. Market swings, governmental stimulus packages and regulatory adjustments all can drive transactions.

It may pay off to invest in building or expanding your firm's capabilities in one or more of these areas.

2. EXISTING TRENDS ACCELERATE

Long-term trends generally don't evaporate due to economic problems — instead, they pick up speed. For example, continuing cost pressures and a more mobile workforce had some firms thinking about reducing their footprints before the pandemic; such reductions could become more pressing. (See "See you at the office? COVID-19 prompts a new look at office needs" on page 2.)

Similarly, competition from alternative legal service providers and pressure from alternative fee arrangements could affect staffing. The commoditization of legal services from the clients' perspective, as well as their cost-consciousness in a tight economy, might mean an even greater focus on pricing.

3. PRICING DISCIPLINE IS ESSENTIAL

That said, resist the temptation to slash prices. Such moves often come back to haunt law firms.

For example, avoid offering discounts unless you stand to benefit from, say, a guaranteed volume of work. And don't extend discounts to delinquent clients simply to get cash flowing. It sets a precedent that encourages clients to delay payment in the future.

4. CLIENT COMMUNICATIONS MATTER

Regular communication with clients always is vital, of course, but this is especially true during uncertain times. Reassuring communication can strengthen relationships and improve client retention.

Partners should reach out to the most important clients, whether in person or by videoconferencing. Practice groups should send timely client advisories on relevant issues. It's a good time to survey clients on how you can better serve them. You'll show you're concerned about them and, ideally, identify some opportunities to proactively respond to their needs.

MAINTAIN TWO VISIONS

You may feel overwhelmed dealing with short-term issues, such as cash flow, but don't take your eye off the future. The decisions you make today can lay the foundation for long-term sustainability — or undermine it. •





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