

The Strategy of What You Don't Invest In

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Ever since the financial crisis of 2008, law has become an unbelievably competitive business. Further, if you're operating a law firm, you know that one of the few levers you can move to make your firm more competitive is the one labeled "technology." However, advanced technology isn't free. Outfitting your team with equipment that will move the needle can require an impossibly large capital outlay. The solution may not be, therefore, to purchase all that gear. It may be to lease or finance it. Leasing your technology can be a strategic decision, and a key to succeeding in an incredibly competitive market.

If you put some data behind the "competitive" adjective, even a few minutes' research will clarify just what "difficult" means to law firms. Demand is not increasing. Rates are under pressure. And more and more hungry, motivated competitors are out there, gunning for your clients. According to a 2017 Altman Weil survey of law firms:

- 95% of law firm leaders think price competition is a permanent feature of the legal marketplace.
- 67% are losing business to in-house legal departments.
- 67% plan on having fewer equity partners in the future.

The introduction to the 2018 Report on the State of the Legal Market issued by the Center for the Study of the Legal Profession at Georgetown University Law Center and Thomson Reuters Legal Executive Institute puts it like this:

Flat demand for law firm services, declining profit margins, weakening collections, falling productivity, and loss of market share to alternative legal service providers and others, are gradually undermining the foundations of firm profitability. For example, the annual declines in productivity since 2007 may not have been sufficient to trigger alarm in any given year. But the average lawyer is now billing 156 fewer hours than they did eleven years ago. At current average rates, this is costing firms an average of \$74,100 in lost revenues per lawyer each year.

The usual tricks that have historically been up the sleeve of law firms seeking growth are no longer available. You can work your lawyers only so hard, in particular associates who are Millennials. You can't keep automatically raising rates if you want to keep your clients. You can, and should, do a better job of business development, but in a market with flat (or even decreasing) demand, that only goes so far.

What you can do, however, is operate better. More efficiently, more securely, more strategically. And these days, the key to doing that is not hiring more people (fortunately), forming more committees, or hiring consultants. It's better technology, which means both hardware and software. Particularly software — legal tech is booming, and cutting-edge solutions are available that can transform the way law firms work. It's a very long list — document management systems, contract review automation, billing and time tracking platforms. And let's not forget about the hardware that coexists with efficient software usage; keeping top-of-the-line desktops, laptops, tablets, servers and printers is a must.

Deciding to upgrade your technology, of course, requires you to figure out how to pay for it. Cash can be a viable option for some firms; however, for many firms leasing or financing may be a better option. Leasing your technology, first of all, shortens and simplifies the decision cycle and allows the request for yet another large capital expenditure to be circumvented through a monthly expense. New technology can be deployed at a fraction of the purchase price, while conserving valuable cash flow.

In addition, being able to pay for the technology as it's used and replacing it at regular intervals, makes for a good predictable business model, allowing the firm to spread the costs over its useful life. It also insures that your attorneys and staff are using the latest and best technology.

And finally, there are the internal financial benefits. The capital outlay required to purchase your technology can materially impact partner distributions, which most firms (and IT teams) would prefer to avoid. Leasing or financing provides the opportunity for IT and your attorneys to have the benefit of top-notch tools, while your firm has the advantages and predictability of a budgeted, fixed, monthly payment. This is especially attractive in a professional business like a law firm, which empties and distributes the till at the end of every year. Put simply, there's more money to go around.

And what are you spending this money on? Well, technology delivers pretty significant benefits to your firm's operations, some of which are obvious, but some of which you may not have suspected. Here are some ways better technology can help your firm that you may not have considered:

- **Security:** Virtually every law firm of any size is a major target for hacking, and one of the keys to preventing disaster is making sure your hardware and software is up-to-date security wise. Keeping your equipment in sync with current security standards protects your clients' data, mitigates the risk of a breach to your network and will keep your risk management team happy, too.
- **Built-in compliance:** This is a variation of the security issue. One of the big ways firms become vulnerable to security breaches is outdated hardware and software. Institutionalizing tech and equipment refresh cycles helps your firm let clients know that your firm and IT staff are serious about keeping their information secure. Hardware and software will also be evaluated and upgraded on a regular schedule, which means your security is upgraded, too.
- **Accountability:** Another big security flaw is losing control of who is using the technology and where the hardware is located at all times. Knowing where the hardware and software is and who possesses it at any given moment allows your IT department to adhere to security and operations best practices.
- **Progressiveness:** Your firm will be viewed as a modern, technologically savvy organization, and a leader in data privacy and protection. This is a selling point for clients, and a significant factor in staff and attorney retention and morale as well. Plus, management can also sleep better at night.

In short, then, technology can deliver a host of competitive advantage your firm can achieve in no other way. By leasing or financing it rather than purchasing it outright, you can obtain these advantages strategically, with one interesting twist. Strategy is traditionally defined as deciding where to invest your resources for maximum competitive advantage. By leasing or financing your technology, your strategy is all about where you're not investing resources — in technology you're much better off not owning.

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