

Marginal gains: COVID-19 is creating new opportunities for law firms

Work-from-home migration, decreased reliance on office space, and certain support staff positions may present opportunities for improving profits. Will firms take advantage of these times to act?

While much has been reported on the financial challenges affecting the legal industry since the outbreak of COVID-19, opportunities for growth and development in a post-pandemic world are emerging for **law firms** globally. Prior to COVID-19, many of the business model changes sought by firms were thwarted by internal headwinds. Unless clients were making specific demands, many law firms resisted the fundamental changes needed to deliver services more efficiently, to optimize staff operations, and to realign physical footprint to actual needs.

The pandemic, however, has demanded rapid change. Law firms are now recognizing opportunities to adopt new operating models:

1. Transitioning to work-from-home environments has been relatively easy and successful for most firms
2. Purchasers of legal services are seizing the opportunity to tighten pricing controls and payment terms to improve efficiency and predictability of fees, and will continue to do so

“Deeper discounts, expansion of alternative fee arrangements, and technology aids are requiring firms to improve their leverage of human, technological, and physical assets. For internal compensation systems, the measure of performance must switch from billable hours to new metrics that focus on profit growth over effort. This culture shift will be difficult, but reliance upon rate increases, the principal driver of revenue and profit growth in recent years for many firms, is also on the shelf for now and for the foreseeable future for all but emerging, cutting-edge legal services.”

George J Wolf, Jr., Managing Director – **Law Firm Advisory Team**, Aon

Working from home: lessons and opportunities

As law firms begin to emerge from the pandemic, they and their clients are realizing that the virtual collaboration tools needed for working from home can significantly increase flexibility and efficiency, as well as providing new cultural engagement opportunities. Even partners who have long resisted remote working are adapting and recognizing the value that a flexible working environment can bring to their firm. It will take some time for all of a firm’s lawyers to return to the office at the same time, if it happens at all.

Having more lawyers and staff working from home on a regular basis brings new challenges for **talent management**, especially relating to quality control, performance assessment, and advancement issues. Yet firms are embracing gains in efficiency and flexibility and are seeing new opportunities for recruitment and retention.

Law firms are reassessing physical office space as the *new normal* requires flexible office arrangements, staggering of time in the office, and social distancing. Given that office costs are often the second largest expense for law firms, an office redesign could produce significant improvements to a firm's long-term margins. A one to two-year lease extension or subleasing at a discount may make more sense and provide better flexibility than signing a new 10-year lease.

The non-lawyer staffing pyramid is another area of opportunity. During the pandemic, many lawyers have learned to adapt and live without support positions previously believed to be critical, while other support positions have demonstrated greater importance for effectively servicing clients. For example, many lawyers' reliance on direct secretarial/administrative support may decrease significantly while the need for tech support and central administrative services may increase and require further investment.

Reshaping for ongoing resilience: starting with conflicts and intake processes

As law firms and clients embrace the *new normal*, existing **conflicts and intake processes are being tested in new ways**. After years, and occasionally decades, of adding new process steps to archaic systems, many existing processes have lost operational efficiency.

“Since all new business flows through conflicts and intake teams, the focus for many law firms in a post-pandemic world should be to thoroughly review conflicts and intake practices to assess existing activity and identify opportunities to increase efficiency and agility.”

Stuart Poole, Vice President & Director – Law Firm Advisory Team, Aon

Technology has enabled many firms to remain operational during the pandemic. As operating models evolve, regularly reassessing their compatibility and alignment to the firm's changing needs will be critical. The need to balance skills and technological infrastructure continue to present challenges for law firms, particularly when reshaping existing operations. If successfully achieved and refined, this balance will enhance software performance, build operational resilience and accelerate growth now and into the future.

Key takeaways:

The COVID-19 pandemic has been extremely challenging. This first true shared experience between law firms and their clients, with the improvements resulting from the lessons learned, can provide firms with significant margin and cultural strategy opportunities. Seizing those opportunities takes strong leadership, a willingness to holistically evaluate the firm's methods of operation, engagement with clients regarding their needs and perception of the firm and the courage to drive transformational change.

If you would like to discuss any of the information in this article, please contact **George J Wolf, Jr.**