

STAFFING AND COST CUTTING FOR ATTORNEYS

SPECIAL REPORT



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Staffing and Cost Cutting for Attorneys – Special Report

The day was brutal enough for headlines to toss around phrases like “The Valentine’s Day Massacre” and “Black Thursday”. February 12, 2009: More than 1,100 attorneys across the nation were pink-slipped in a single day. From all reports, this was just a very public ripple, the outward reverberation of a deeper and more substantial seismic shift, as evidenced only days ago when prominent multinational firm Latham & Watkins laid off more than 8% of their lawyers and more than 400 total employees. Like tectonic plates at a fault line, the demands of the current economic downturn have been straining against traditional staffing and spending models, until the friction has reached a fracture point. How deep is the center of the shift? We won’t know for some time. But what we do know now is attorneys in every type of office – from in-house counsel, to large firms, to small and mid-sized firms – are being forced to reexamine their staffing models and cost structures.

IN-HOUSE COUNSEL

The offices of General Counsel are in the unenviable position of simultaneously fighting the battle on two fronts. Externally, General Counsels are charged with evaluating the scope and efficiencies of their use of outside firms. Internally, they are scrutinizing their own staffing, budgets, and workflow; which means in-house counsels are evaluating their cost containment options in a number of ways:

- **External Firms.** General Counsels are studying potential savings in consolidating the number of outside firms they use.
- **Revised Workflow.** Businesses are also reporting plans to lower external fees by keeping more work in-house.
- **Revised Billing Arrangements.** Another potential tact that General Counsels are assessing is requiring lower fees or fixed rates from their remaining outside firms, as well as a reduction or elimination of pass-through costs.
- **Internal Staffing.** Layoffs and attrition seem to be part of the conversation in many offices. General Counsels are evaluating cutting support staff, as well as leaving departing attorneys’ positions unfilled.

- **Outsourcing.** Internal attrition combined with more in-house work is prompting many General Counsel to outsource projects to LPOs rather than retaining outside law firms. In fact, some businesses are reportedly mandating that a percentage of total work be outsourced to an LPO with target hourly rates as low as \$30 to \$40 per hour. The types of projects General Counsels are funneling to LPOs include legal research, contract review, contract drafting, and document review.

LARGE FIRMS

Large firms have begun initiating unprecedented staffing cuts, from partners to associates. There are two primary reasons, both rooted in the uncertain economy. First is the simple fact that for many firms the demand for legal work is flat, at best. In many instances, demand is down markedly. Second, the traditional hiring paradigm has hit a snag. For years, the model entailed hiring a fixed number of newly minted law school grads each year, while expecting and receiving a corresponding level of attrition from more senior attorneys. The problem is that the current attrition rates are far lower than past years. Fewer attorneys want to risk taking that next step in today's climate.

Large firms are revisiting many of their staffing and cost containment options, as well:

- **Compensation.** Firms are weighing lower starting salaries as well as wage cuts.
- **Layoffs.** Firms with more attorneys than work are looking at the \$200,000 per year (with benefits) a junior associate can cost. Senior associates, obviously, cost even more.
- **Reduced Hiring.** While not entirely overhauling the traditional staffing paradigm, some firms are altering it by hiring fewer new associates. Then, in order to avoid senior attorneys performing associate level work, firms are evaluating how new associates might oversee the outsourcing of associate level work to LPOs.
- **Outsourcing.** Large firms are also doing the math – comparing the approximately \$200,000 a year a junior associate can cost against the significantly lower price of outsourcing associate level work. When an LPO can offer a dedicated fulltime staff attorney for under \$60,000 a year – fully loaded – the firm-wide savings can be significant.

SMALL AND MIDSIZE FIRMS

Solo practices and smaller firms are also assessing the landscape and making tough decisions. Many attorneys are facing the reality that the economic downturn is directly impacting their practice area. Attorneys working in commercial real estate, financial transactions, and asset management are being particularly hard hit. Even

those attorneys working in more sheltered practice areas are experiencing a client base that is stinging – requesting fewer services and lower, if not fixed, rates.

The key areas of concentration for small and midsize firms are:

- **Practice Areas.** Some attorneys are reevaluating their practice areas and/or contemplating augmenting with additional services.
- **Layoffs and Attrition.** Like other offices, wage cuts and attrition are being evaluated.
- **Overhead.** Attorneys are considering reigning in costs by cutting back on Westlaw packages, cell phone subscriptions, office space, and travel. As reported in law.com, some small firms anticipate saving \$20,000 – \$30,000 by paring overhead.
- **Scalable Staffing.** Another strategy being investigated is a tandem approach to attrition and outsourcing. Attorneys in this scenario are deciding to keep employee numbers low, while accommodating demand by utilizing LPOs for specific projects, like pre-litigation support, legal research and writing, deposition summaries, drafting of memoranda, contract and document review, preparation of pleadings and briefs, discovery, and patent services.

Attorneys across the board are responding to the demands of the market, scrutinizing every aspect of their business. In the process, traditional staffing paradigms and cost structures may end up on the other side of the fault line.

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