

Procurement: The Hidden Path to Maximizing Profits

By Adam Stoklosa and Clayton Fox

Over the past several years, a shift in the business of law has occurred that has fundamental long term implications. The days of consistent increases in revenues and margins are gone and have been replaced by a sharp focus on efficiency and cost management. Clients are pushing hard to reduce rates and eliminate chargebacks for administrative expenses, while law firms are taking on increased risks through alternative fixed-fee and reduced-fee arrangements.

In years past, to confront this harsh reality, many firms have undertaken aggressive cost-reduction programs with the goal of better controlling operating expenses. A recent shift in strategy has firms turning to a more thoughtful approach to cost savings that can yield equal results while bringing the firm together and causing less stress on the firm and its resources.



As part of this approach some firms have begun to reevaluate their tactics toward procurement. Procurement represents a unique, untapped opportunity for firms to maximize profits through sustainable, long-term cost reductions. Operating and administrative expenses represent 30 to 35 percent of a firm's cost structure, and reductions have a considerable impact: a \$1 reduction in these expenses can provide the same effect on the bottom-line as a \$3 increase in net revenue.

These benefits have positive implications for law firms, their people and their clients. Rather than eliminating positions in order to cut costs, firms can save money through a smarter approach to procurement.

Beyond the bottom-line savings, an effective procurement function can provide other benefits, including increased spend visibility and transparency; increased collaboration across departments and regions; freeing up internal resources to focus on core tasks and competencies, and; standardizing workflows to mitigate risk while increasing efficiency, enhancing supplier management and improving third-party relationships. Unlike corporations, law firms require a function that is flexible and scalable to meet the needs of a variety of different stakeholders across multiple departments and offices, yet small enough to create desired cost efficiencies.

Despite all these advantages, law firms still tend to view procurement as a non-strategic function which tends to create an environment that is reactive, rather than proactive. Firms usually have some level of transactional purchasing while procurement capabilities, if any, are widely distributed and the skill set and focus vary greatly. Moreover, each firm has a unique culture that presents its own distinct operational nuances.

Changing that mindset can be among the more difficult aspects of establishing a formal procurement function. It requires significant experience, analytics, and change management and usually requires third party consulting assistance to maximize results.

The path to procurement success depends on how firms approach four core areas: strategy, people, workflow and infrastructure. Understanding how these core areas fit into a law firm's operating structure and address its needs will allow the procurement function to provide all the possible advantages.



Many firms fail to consider strategy and procurement together, thus their approach is often haphazard and unfocused. The costs associated with an undisciplined approach can be considerable as firms tend to unintentionally and unnecessarily allocate significant human resources to procurement activities across numerous departments and offices. This costs firms millions of dollars in wasted hours and distracts key people from their core duties. Through a detailed assessment and rollout plan implemented by a dedicated procurement team, firms can reduce costs by nearly 75 percent.

Developing a procurement strategy can seem like a daunting task, especially building a new operating model. Firms must consider their size, culture, locations, infrastructure requirements and assess the effectiveness of their current operating models. Then, they must incorporate the discrete transactional aspects of purchasing goods and services into an operational framework that supports the firm's long-term procurement strategy.

Another significant consideration is the level of centralization required. Some offices or regions may expect, or even demand, a fair amount of flexibility and decision-making power, while others may be more content to align with a firm-wide approach. These decisions must be considered across functional areas as some better align with a firm-wide strategy while others might require more local or department-focused considerations.

Longterm success and sustainability of results requires leaders to reinforce the firm's procurement strategy through communication and monitoring. Developing momentum is critical and the best approach is not only articulating successes but being able to quantify performance through established metrics. Drafting a mission statement can be extremely helpful and clarify many of the questions that arise while adding a sense of permanence. If attorneys and staff don't know about the strategy or don't believe it is providing value, then it will fail to have much of an impact.



People

The success of any strategy is dependent on execution. Finding the right personnel to do so can be a significant challenge, especially for law firms. Talented procurement professionals seek opportunities that not only provide numerous challenges but also significant room for career advancement. Major corporations can provide those opportunities given the size of their departments, broad geographic reach, and complexity of commodity areas. Law firms don't have the luxury to offer this type of focus as the professionals must be generalists to handle a large breadth of work, ranging from office supplies, to insurance and benefits, to library services.

In order to recruit the right type of talent, law firms must make themselves appealing places for procurement professionals to work. This can include highlighting the breadth of responsibilities, ensuring personnel are involved in strategy development and establishing continuing development opportunities. While this approach will require an investment of time and resources, it's a must for a successful procurement organization.



Workflow

Creating procurement workflows and processes is essential to ensuring an efficient procure-to-pay process. Firms need to adhere to best practices while streamlining core processes to minimize operational soft costs. Further, clearly defined workflows help align the appropriate levels of internal controls.

Historically, firms tend to bid out virtually every item they purchase to multiple suppliers, requiring staff to spend a significant amount of time researching vendors and facilitating the bid process. This multiplies the number of active vendors working with the firm and increases the number of invoices received. Both aspects take time and effort to manage.

By establishing a preferred vendor program and negotiating comprehensive, market-competitive multi-year agreements, firms are able to eliminate or significantly reduce time spent on the bidding process, consolidate spend across core vendors and drastically reduce soft costs. However, workflows must possess the right balance of standardization and flexibility. Firms should consider their own cultures and hierarchies when determining what items staff and attorneys can purchase directly, which suppliers they can use and how much they can spend without requiring approvals. This type of procurement profile with approved vendors can significantly drive costs down and free up time for personnel to focus on their core responsibilities.



Infrastructure

A supporting "thin" infrastructure is the final key to the effectiveness and sustainability of a procurement function. Components may include: a procurement intranet site, procure-to-pay & contract management system, spend analytics and invoice automation software.

In the past these solutions required sizeable investments. Implementations were complex, customized, training intensive and time consuming. However, over the past five years or so, numerous solutions have come to market that are more flexible, scalable and most of all, economical.

The key components of these solutions are automation and standardization of workflows, increasing visibility into activities and enhancing reporting capabilities. Processes as simple as ordering products can now be done within a procurement-to-pay solution that includes a list of pre-defined product catalogs, preferred vendors engaged, budget monitoring and approval routing.

On the other end, an integrated spend analysis and contract management solutions provides a centralized repository for all of the firm's contracts while taking a proactive approach to managing renewals.

Selecting the right solution requires a focus on finding products that are intuitive, flexible and meet the needs of the firm and its end users. In addition, the solution should include robust reporting capabilities to allow a firm to drill down into the details.

The pressure on law firms to cut costs and minimize rate increases remains a daily challenge. Rather than trimming costs to the bone or frantically chasing new business, firms should consider the advantages of a formalized procurement process.

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Meet the Authors

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Adam is a Managing Director in HBR Consulting's Infrastructure & Business Process Practice. He has extensive experience in cost reduction, strategic sourcing and procurement transformation and augmentation services. Adam has led multiple comprehensive global projects and has delivered measurable bottom-line impact to clients by leveraging proven methodologies and strategies.

Adam has experience in a variety of industries including legal services, financial services, professional services, higher education, and healthcare with client located in various North American and European markets. Indirect commodity areas include office related products, subscription services, reprographic services, office equipment, temporary labor, ground transportation, travel, courier, IT hardware and software. Procurement services include current and future state assessment, pilot approach and interim management, implementation and transition and ongoing management.

Prior to joining HBR Consulting Adam was with Huron Consulting Group in its Strategic Sourcing practice responsible for sales, client relationship management activities, project planning, risk identification and mitigation, best practice counseling, indirect and direct vendor negotiations, project profitability management, and project expansion and extension activities. He led a number of engagements in the legal, financial and higher education sectors resulting in \$30M in annual recurring savings.

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Clayton is a Senior Director in the Strategic Sourcing & Business Operations Practice for HBR Consulting. He has extensive experience in implementing a variety of cost reduction strategies that have achieved substantial and sustainable long term savings for clients across various industries including legal, consumer finance and publishing.

Clayton has led numerous engagements by leveraging his experience in procurement management, strategic sourcing, non-salary cost reductions and demand management analytics. In addition, he has driven additional value for clients by streamlining business processes, creating key performance metrics to monitor spending patterns and creating various analytical tools. His commodity areas of expertise include office related products, office equipment, print services, reprographics, litigation support services, professional and outsourced services, temporary labor, cafeteria services, courier services, ground transportation, wireless services and technology.

Prior to joining HBR Consulting, Clayton worked for Time Warner where he was tasked with improving bottom-line results by implementing strategies to increase efficiency and reduce costs. Prior to working for Time Media Direct he worked for Volkswagen Credit Inc. in a variety of roles including Enterprise Process Consultant and Financial Analyst.