

Strategically Reducing Fixed Overhead

By [Michael D. Short](#) on October 2, 2013

In my last post I wrote about expense control and efficiency creation under the theme and title that [“It’s Time to Spend Money to Make Money”](#). I pointed out that nonstrategic cost cutting can hurt long-term prospects by undermining productivity.

I was talking about my blog with [Marcia Hart](#) – the CEO of RoomTag Consulting. She is a regular brainstorming partner on this topic, given her focus on the fixed overhead spending component of the new business of law model combined with her in-depth understanding of how all the business model elements fit together. Marcia brought an interesting perspective to this discussion. She observed that while wise investments are worthy efforts, cost cutting continues and those who are focused on reducing overhead spending should also be seriously focused on efficiency and productivity as well. Both paths should have this common goal, and now is the time to focus on improving productivity with all actions. Measures to align firm resources with today’s actual needs naturally yield efficiency improvements while still reducing overhead.

Marcia further observed that the relationship among work processes, staffing, and overhead is direct and clear. For example, technology makes attorneys more efficient and mobile (work process), the ratio of lawyers per secretary increases (staffing), and the need for workstation space on legal practice floors goes down (overhead). All of these factors have transformed dramatically since current workplace and overhead models were established. Furthermore, new client-driven practice models demand new flexibility in delivering legal services, with case management, different kinds of staffing, and document controls. Yet, except for reduction of on-site libraries and excessive filing, many firms still operate under a traditional law firm office concept that has changed very little since the 1980’s.

The overhead cost implications are serious. Marcia explained to me that ***law firms occupy at least 60% more¹ real estate per capita than any other professional service business***. The disparity grows wider every year as major shifts in workplace strategies are adopted everywhere else but legal. Reducing space from a very traditional model to merely half-way toward a corporate overhead model will save \$750,000 every year for each 100 lawyers². More importantly, using space differently can make firms more productive with better groupings of lawyers/teams, which promotes interaction and supports the workflows that align with clients’ requirements. Increasing productivity just 5% by reconfiguring sub-optimal space to improve lawyer performance yields \$3.5 million additional revenue every year for each 100 lawyers³.

Pressures to reduce overhead costs while responding to client demands will be ever-increasing. Real estate and workplace strategies offer a ready platform for a major transformation. The opportunity to reduce fixed overhead while simultaneously supporting new practice models is too good to miss.

Thanks, Marcia.

¹ Law firm average 400 Rentable Square Feet (RSF) per person vs. 250 RSF per person for non-law firms. Traditional law firm model average assumes 800 RSF per attorney and a 1:1 staff:attorney ratio.

² Assumptions 1:1 staff:attorney ratio; a lease rate of \$50 per RSF; a reduction of office space to 325 RSF per person from 400 RSF per person – saving 75 RSF per person.

³ Productivity is defined as realized revenue per attorney, and assumes a \$700K average annual level.