



# 17 Data Points that you need Complete your 2021 Budget

## Survey Overview

Iridium Technology, LawVision, and Concata work together to co-host an ongoing webinar series focused on law firm profitability. The concept behind the webinar series is to “go deep” on law firm profitability, leveraging the fact that each of the principals of the three firms has more than twenty years of law firm profitability experience.

The series has been very well received, and we have a cadence of one webinar every two months. The webinar format is very interactive, which each session polling the attendees on profitability topics, and then the hosts commenting on the results and adding their deep insights from their interaction with their hundreds of law firm clients.

In November we hosted a webinar titled “17 Data Points that you need Complete your 2021 Budget”. We queried the attendees on 17 metrics that will drive the assumptions for their 2021 budget. As you can imagine, there was a wide variance in responses from the firms, but there are also some significant trends that we identified. We promised the attendees that we would package up the results into a white paper than they could use to help them tighten up their own firm’s assumptions for their 2021. We hope that you find this white paper to be both valuable and an interesting read.

**Note:** If you want to get on the mailing list for the profitability webinar series in 2021, please reach out to [ash.thoms@iridium-technology.com](mailto:ash.thoms@iridium-technology.com).

## Executive Overview

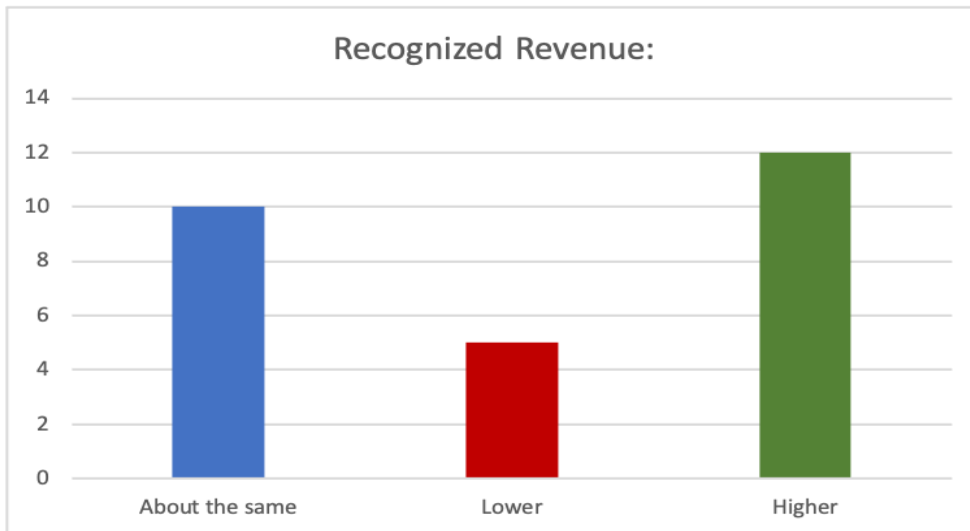
As an industry sector, legal has done better than many others in 2020 (with some exceptions, such as technology, WFH sectors, select healthcare, consumer and industrials). Compared to its historical demand pattern during past recessions, 2020 did not bring anywhere near the economic stress on the legal market where in the 2001-2002 and 2009-2010 periods we saw double digit demand contraction. Thus, one might expect a greater chance of more volatility in 2021, depending on economics, vaccines, and other unexpected industry shocks.

That may help explain the mixed messages received in the survey below. On the one hand respondents expect “more of the same” in realization and discounts. Responses indicate continued growth in hiring and laterals, an investment in technology. Many firms also forecast a staff reduction, which will probably be targeting positions that may not be needed at the same levels as pre-COVID/pre-WFH operation environment.

The most revealing data may be in the expected growth rates by practice group. For the industry overall, transactions have been the growth fueling profitability and demand. But the respondents are suggesting mixed demand for transaction practices, with a significant number indicating contraction. Litigation is the practice where most firms are expecting the strongest growth. That alone will not drive demand equilibrium for large law firms.

2021 will be a challenging year, but we have seen during 2020 that law firms are resilient. The data provided below will help your firm to get an idea of the “pulse” of your peer firms, and should provide you with confidence that you are bring the right assumptions to your 2021 budget.

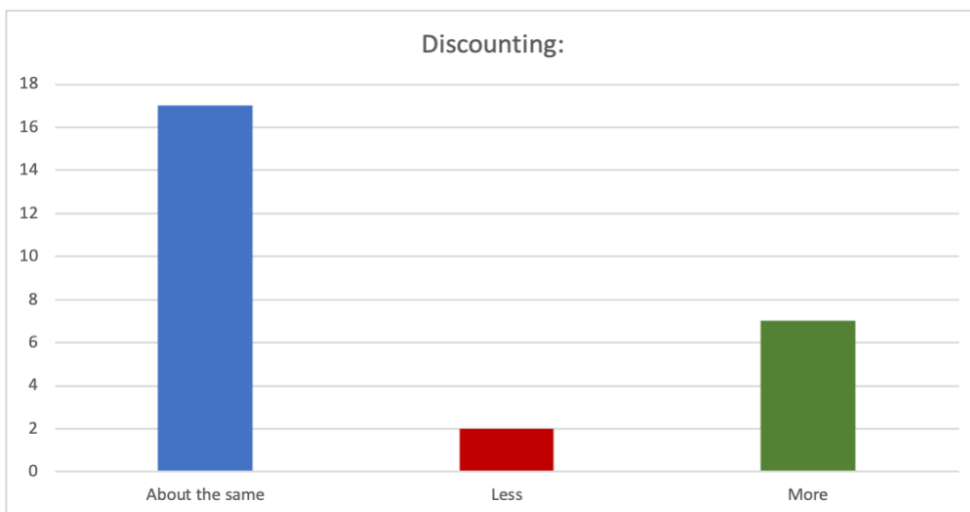
## (1) Recognized Revenue



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Recognized Revenue?

**Commentary:** 80% of respondents are anticipating either the same or higher revenue in 2021, with nearly half indicating higher. We read that as positive sentiment, given that the industry has been very resilient in 2020 and has exceeded reset expectations set in March. But this should be contextualized with responses associated with headcount and expected practice performance. The results should also be read in the context that law firms tend to be long term optimists.

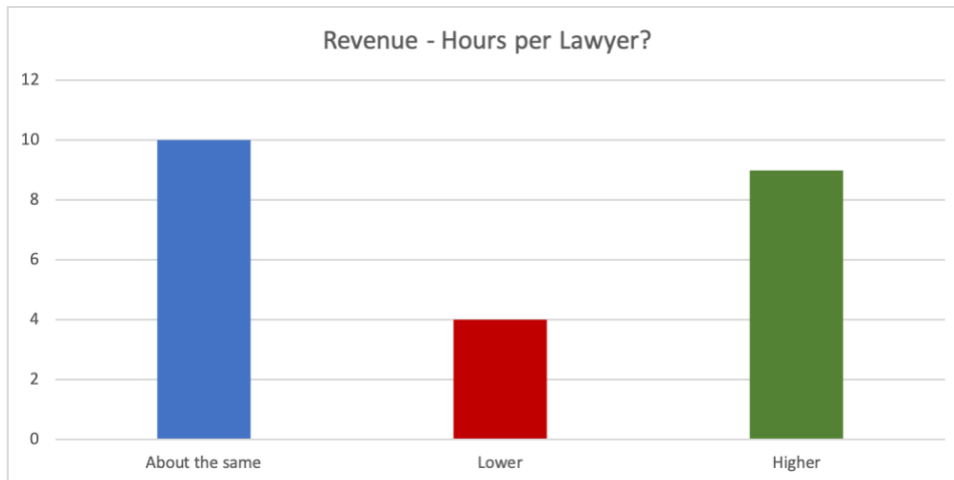
## (2) Discounting



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Discounting?

**Commentary:** The 2020 rate law firm rate growth baseline was strong and trending favorably before the pandemic hit. Therefore, the baseline was artificially high. So, the important response to monitor is the percentage of firms expecting more discounts, which is 25% of the firms. That is not too bad given the general economic and client headwinds facing firms. And is somewhat related to whether firms increase rates. We need to keep in mind that those expectations will be dependent on a steadily recovering economy.

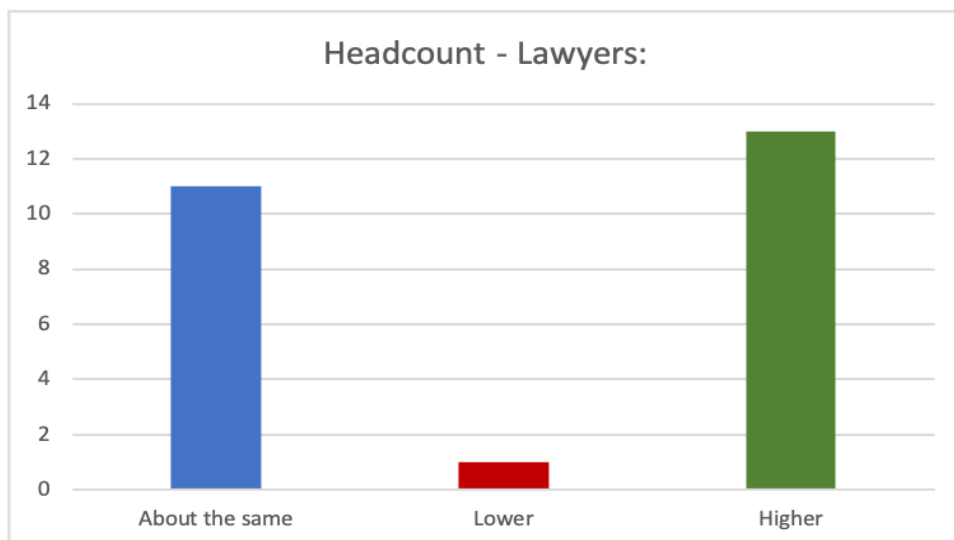
### (3) Revenue – Hours per Lawyer



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Revenue – Hours per Lawyer?

**Commentary:** 2020 demand has been resilient compared to prior recessions but still weaker than recent years, especially in the transactional and practices that correlate with a stronger economy. Thus, the baseline is slightly weaker than prior years. That being said, the vast majority of firms are expecting hours to be about the same or higher – a very bullish response. While the sentiment is not surprising, success in 2021 will depend on exceeding modest demand projections.

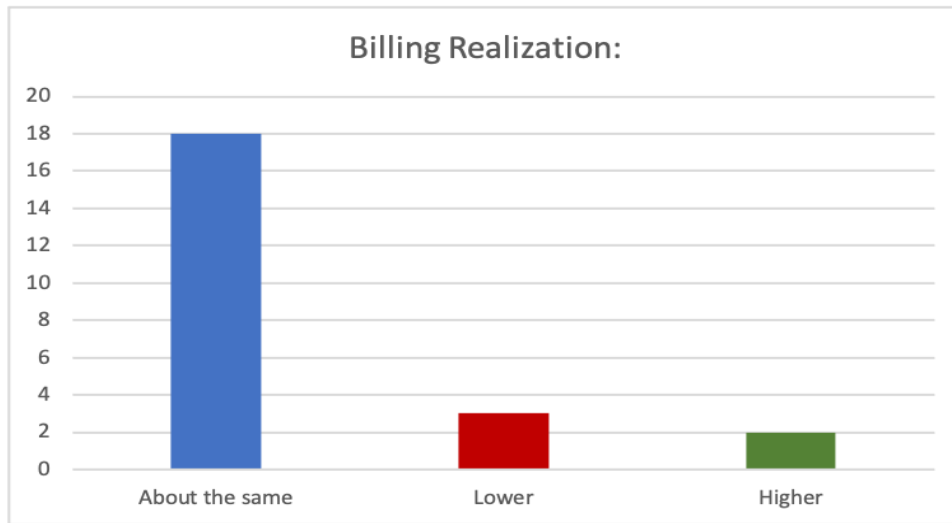
### (4) Headcount - Lawyers



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Headcount – Lawyers?

**Commentary:** Laterals and smart lawyer hiring have been important elements of law firm performance during recent years. Nearly 90% of firms expect headcount to stay the same or rise, with more than 50% expecting more lawyers in 2021. That suggests hiring could pick up meaningfully if the economy and corresponding key transactional practices pick-up steam. Further, pandemic-practices like certain litigation and bankruptcy practices may provide transitional growth with targeted hiring. Yet to be seen is how lateral hiring is impacted by remote working when adding lawyers is not tied tightly to available office space and attorneys may have more options that are not tied to geography.

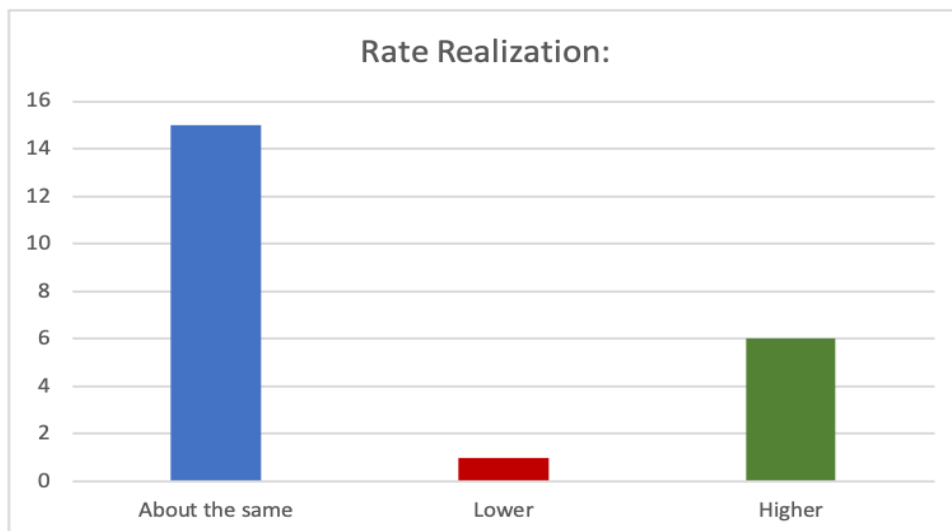
## (5) Billing Realization



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Billing Realization?

**Commentary:** During recent recessions, realization statistics have shown reductions in the range of 3 to 6 percentage points. But 2020 is different in many ways. First demand has held up better and net collected realization has lost only about 3 points – which while significant is less than prior cycles. So, given that the majority of responses are expecting the same billing realization suggests firms believe (or maybe hope) that billing realization may be stabilizing.

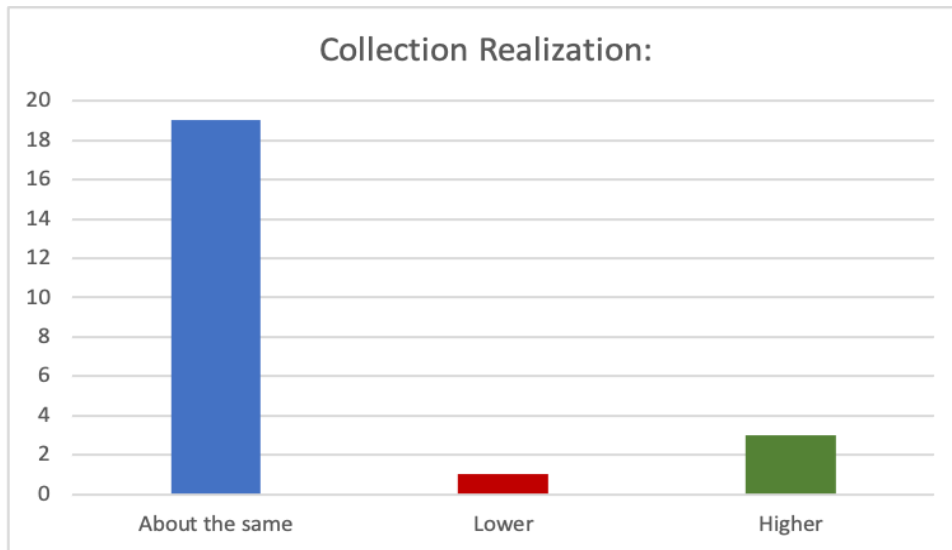
## (6) Rate Realization



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Rate Realization?

**Commentary:** While the results are very bullish with more than 90% of firms saying that rate realization will be higher or the same as in 2020, we would caution that the possibility of more rate and realization pressures could show up in 2021-2022, subject to the shape of the economic recovery. If the economy double dips or stagnates, based on historical trends we might expect another 3% points decline in these metrics over the next two years. Client pressure on rates has been building since the great recession and clients may try to keep the pandemic induced pressure on rates into the future.

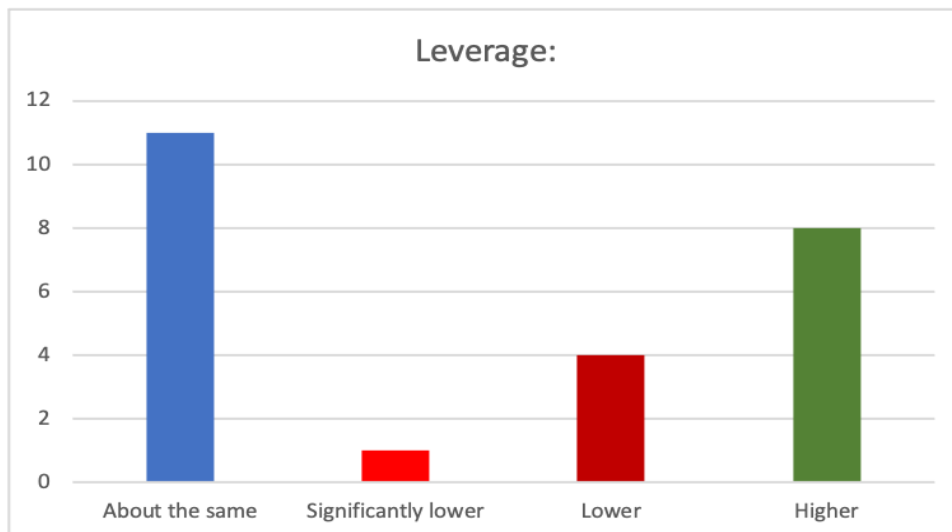
## (7) Collection Realization



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Collection Realization?

**Commentary:** The results are again bullish and mirror the results for billing realization and rate realization. One factor in this bullish outlook may be that firms have used 2020 to tighten up their collections processes, and they expect to continue into 2021 with tighter controls for handling late payments and collections in general.

## (8) Leverage



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Leverage?

**Commentary:** The responses here are varied and interesting in the sense that there is more divergence among the respondents. Just under half of the respondents think that the status quo will prevail, with another third expecting higher leverage and about a quarter expecting lower or significantly lower leverage. This question may be revealing practice mix differences, varying confidence levels, different management posture: more conservative to more aggressive, and overall expected uncertainty. Talent is a critical part of the firm's growth strategy and this may be where the winners separate themselves during the recovery.

## (9) Practice Groups: Revenue Increase



**Question:** For which practices groups are you expecting a revenue increase vs. 2020? (List compiled from the Georgetown Report)

**Commentary (for this question and the next):** This question, somewhat like the leverage question, reveals varying views held by law firm leaders. Our commentary examines expectations for growth and contraction by practice group and adds comments on a net forecast.

There is consensus among the group that litigation growth is expected. Corporate, M&A, and Tax are split with a net neutral position (half expecting increases while others expecting decreases). Real estate is expecting a net decline (probably based on changing workplace strategies and WFH trends). Generally, the practice growth expectations are cautious and suggest a slower economic recovery. The responses may suggest most firms are not expecting a robust economic recovery in 2021.

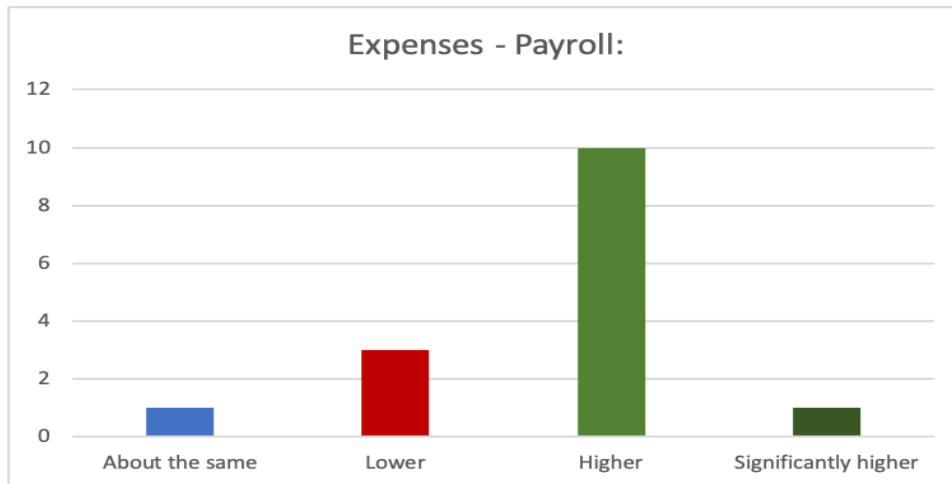
## (10) Practice Groups: Revenue Decrease



**Question:** For which practices groups are you expecting a revenue decrease vs. 2020? (List compiled from the Georgetown Report)

**Commentary:** See commentary above for Practice Groups: Revenue Increases

## (11) Expenses – Payroll



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Expenses – Payroll?

**Commentary:** We are guessing that the vast majority of firms that expect higher payroll expenses in 2021 are doing so based on the cuts made in 2020 – so the baseline is low. Thus, as firms return to the office (in new configurations), they are expecting higher costs associated more lawyers and a return of some professional positions reduced or furloughed during 2020. These positions may not come back to 2019 levels, but it is clear firms expect to add some back from 2020. The anticipated new hires mentioned above in Headcount – Lawyers also should also have an impact.

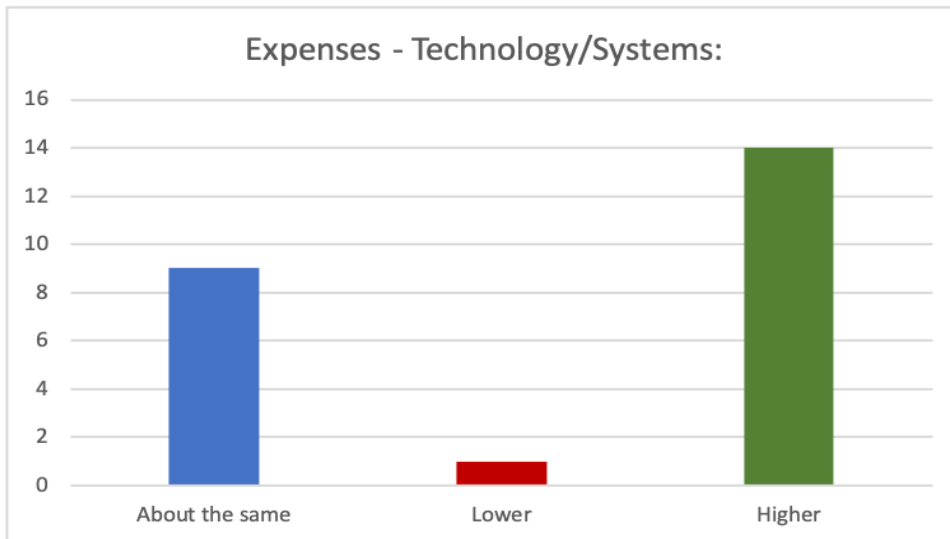
## (12) Expenses - Rent



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Expenses – Rent?

**Commentary:** Most respondents suggested same or higher rent charges. This is contradictory to industry trends and discussion, but perhaps it reflects the timing and sorting out of exactly how folks will return back to in-person office activities. It may be that leases are not changeable in the short-term and that firms also are still figuring out what their needs will be in office requirements. Some firms are wrestling with segments of the firm with a strong desire to return to the office.

## (13) Expenses – Technology/Systems



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Expenses – Technology/Systems?

**Commentary:** Just about everybody is investing the same or higher in technology, reflecting the momentum both in the current technology cycle, as well as with the need to make investments given the WFH trend. These responses are consistent with general industry discussion and sentiment. It is worth noting how important it may be for firms to be thoughtful about tech investments and their ROI to the firm in terms of value and competitive advantage. Two trends to watch are whether the adoption of cloud or hybrid technology platforms will accelerate and if firms will disaggregate solutions to be more focused on client needs or focus on large multi-function platforms.

## (14) Expenses - Operating

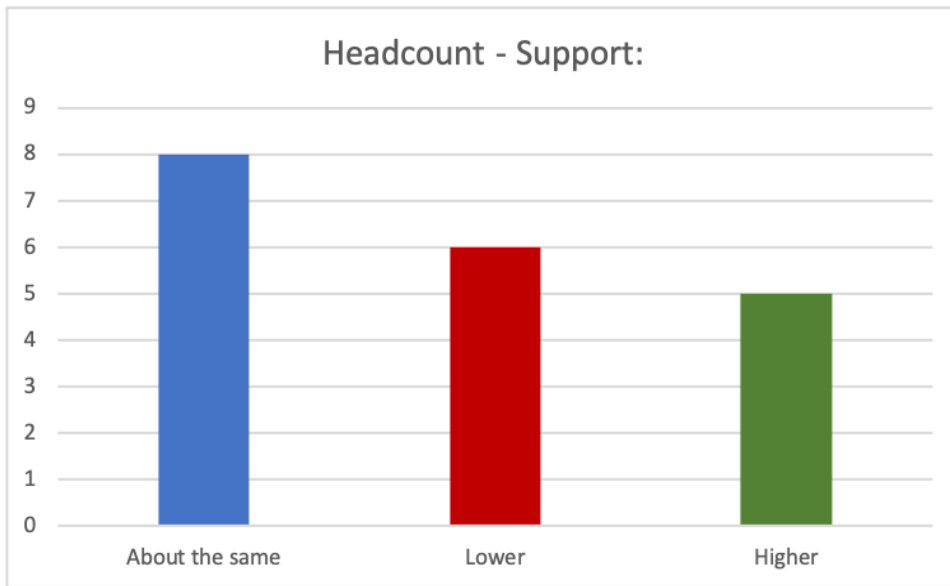


**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Expenses – Operating?

**Commentary:** Most respondents expect higher operating expenses in 2021, probably due to the increases expected from employees returning back to the office in critical mass.



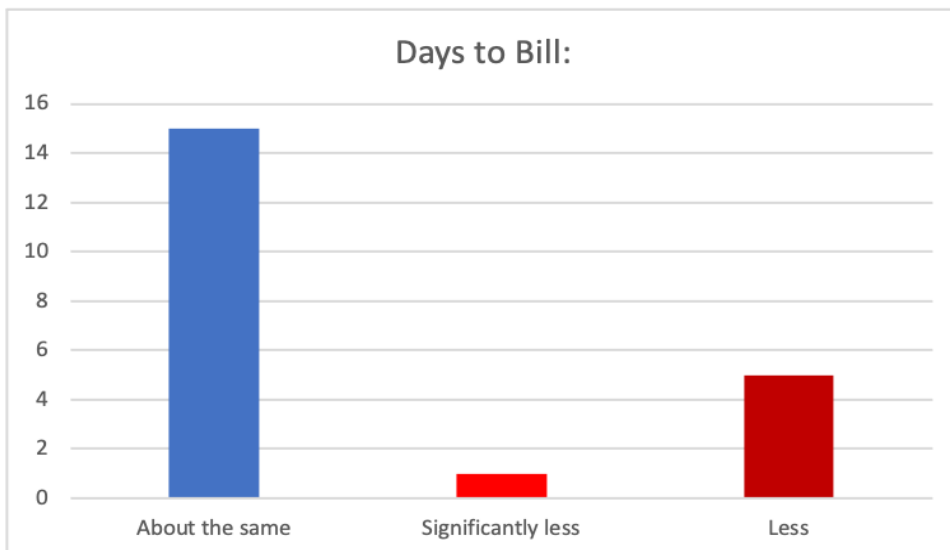
## (15) Headcount - Support



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Headcount - Support?

**Commentary:** Looking at the results in total it would be easy to say, "on the average head count will remain about the same." But that would be a misrepresentation: about 30% of firms are expecting lower support headcount beyond what has already been reduced this year, despite the overall trend of increasing lawyers and expenses versus 2019. We can speculate that some firms have reduced their support resources during WFH, and those resources will not be returning or backfilled.

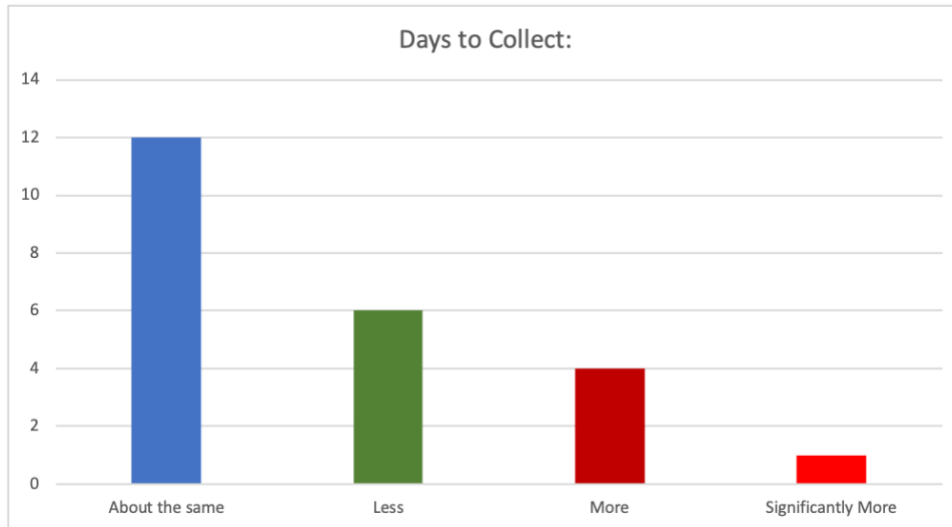
## (16) Days to Bill



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Days to Bill?

**Commentary:** Most firms made strides in financial hygiene in 2020 (e.g., time to enter time, billing speed, collection speed), and that sets a higher standard or baseline for 2021. Thus, it is interesting to see that the majority of firms expect to hold those gains into 2021 with some also expecting a continued reduction in Days To Bill.

## (17) Days to Collect



**Question:** How will your 2021 budgeted metric compare versus 2020 actuals for Days to Collect?

**Commentary:** On the collection side (which is dependent on clients' ability/willingness to pay bills timely), the majority of firms expect the trend from 2020 to continue. Our assumption is that firms that are expecting further reductions in Days to Collect are bullish on an economic recovery, while the firms that are expecting Days to Collect to extend further are bearish on the timing and speed of a recovery. Regardless of your opinion on the upcoming recovery, this does invite having good reporting and tracking of clients' payment cycles (e.g., regular review of collection speed, post-bill discounts, DSO).

## Closing Commentary

The industry is in transition and it will likely be 2022 when the legal economy is back on even footing. The question then is what shall one expect from this cycle in terms of working configuration (remote, in-office, blends), permanent staff position changes, new roles, hiring strategies, pricing strategies, investments in technology? Will the changes be large, structurally different, and where will they be felt most internally and for the client? Will client pressures for change accelerate or even out?

Ultimately, your firm will need to agree on your assumptions for your 2021 budget. We hope that this white paper has provided you with the "temperature" of you peer firms and will provide you with valuable insights into how 2021 will develop.

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