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4 Tips for Sound Financial Practice for Your Tech Spend

Law firms increased their technology spend by 7.1% in 2021, the second largest overhead expense increase of the year, second only to recruiting increases as a result of the unprecedented war for talent. This uptick comes as no surprise as the pandemic transformed how and where work is performed — and is powered by — technology.

There were also some unintended consequences that accompanied the shift to work from home, namely, a sharp increase in cyber threats. Data breach costs increased from $3.6 million to $4.24 million in 2021, the highest in the past 17 years. The logic is straightforward: When employees work from home, there are more attack vectors made available to hackers, such as phones, tablets and PCs.

So it's more important than ever that remote staff are equipped with the latest technology that not only helps them be productive from remote locations but is up to date and running the latest hardware and software. That provides the best defense against an increasingly threatening cyber landscape.

The question then becomes how do you best manage not only the increasing technology needs of your firm, but also its increasingly short refresh cycle to ensure your firm's technology is up to date Leasing and financing a firm's technology needs is a sound financial practice that helps the firm accomplish both. The firm can intelligently increase investments in technology while creating a refresh cycle that optimi es its spend and ensures that it's secure. Even more so now, leasing provides an opportunity to secure fixed rates in an increasing rate economic environment to keep costs low.

Here are four areas illustrating how leasing and financing can help your firm create a sound financial strategy for your technology needs.

1. TECHNOLOGY REFRESH TO ENSURE PRODUCTIVITY

For starters, leasing and financing helps ensure the firm has the right technology for the right amount of time. This is the key point. The right technology is an essential building block to successful adaptation in today's market, but the useful life of technology is decreasing, platforms are proliferating, and the need to adapt has accelerated.

This means it may not be strategic in the current environment to own equipment, as the depreciable life will most likely outlast the equipment's useful life as well as its security protocols. Instead, your legal organization should put together a workable disposition plan combined with a technology refresh mechanism that will protect the firm from keeping outdated equipment in use that doesn't adhere to new and increasingly high-security standards. This points to leasing as the optimal option to procure technology and equipment over its useful life.

2. ASSET MANAGEMENT TO IMPROVE SECURITY

Leasing and financing also come with the additional benefits of asset management. Asset management is a a powerful tool in any firm's security efforts while reducing costs. With modern asset management, IT can know in real time the location and chain of ownership tied to any piece of equipment. Finance can manage all contract expirations and lease language from a single place, putting them in an optimal position to proactively manage terms and conditions and reduce costs.

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In light of today's hybrid operations, asset management needs to be taken to the next level including mobile and remote capabilities with a mobile app to enable barcode scanning of both in-office and off-site assets. IT and finance will have the same capabilities working remotely as they have in the office.

3. 100% FINANCING OF SOFTWARE AND RELATED SOFT COSTS SUCH AS TRAINING, IMPLEMENTATIONS AND CONSULTING

Firms can manage the cost of a software implementation or upgrade in several ways, but the fundamental decision is purchase versus financing.

Firms can benefit from 100% financing of software — and that includes soft costs such as training, consulting and implementation fees. It is important for firms to avoid fair market value leases for software, but rather to work with a lessor who can provide financing with these benefits:

- Monthly expense verses total cost — monthly payments may secure a more cost-effective solution over the life of a lease.
- Spreading costs over a 36-to-60-month lease is less taxing on cash reserves, allowing partner distributions to proceed regularly.
- Software costs also carry associated soft costs that may not be factored into an outright purchase price.
- Financing terms may offer more flexibility and incorporate upgrades that would otherwise pose additional after-purchase costs.
- A fixed-rate financing in an interest rate increase environment

4. AVOID ONEROUS TERMS AND CONDITIONS IN LEASE AGREEMENTS

Any sound financial practice requires due diligence and when it comes to leasing and financing, due diligence means uncovering any hidden terms that increase your firm's costs overall.

The total cost of your master lease agreement (MLA) is not solely determined by the lease rate. Some MLAs and supporting documents may contain onerous terms and conditions that significantly increase the true total cost to your firm. Some companies proactively educate the market about many of these leasing land mines, including potentially onerous terms and conditions.

Look for tools that help calculate the cost impact of your terms and conditions to the over cost of the agreement.

Here are a few of which to be aware:

- Fair Market Value Purchase Option for Software and Services.
- Extended Pro-Rata Rental Periods.
- Difficult or Tricky End-of-Term Notice Provisions.
- Late Return Equals Notice Cancellation.
- No Return Provision at End of Terrm.

Great challenges are always met with great opportunities. Ensuring the firm has financial and operational flexibility, a continuously up-to-date equipment technology fleet to improve security and productivity, and an intelligent approach that reduces costs is a sound financial strategy that supports these requirements.

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