DISRUPTIVE COST SAVINGS

A guide to forward-thinking frugality for small and mid-size businesses

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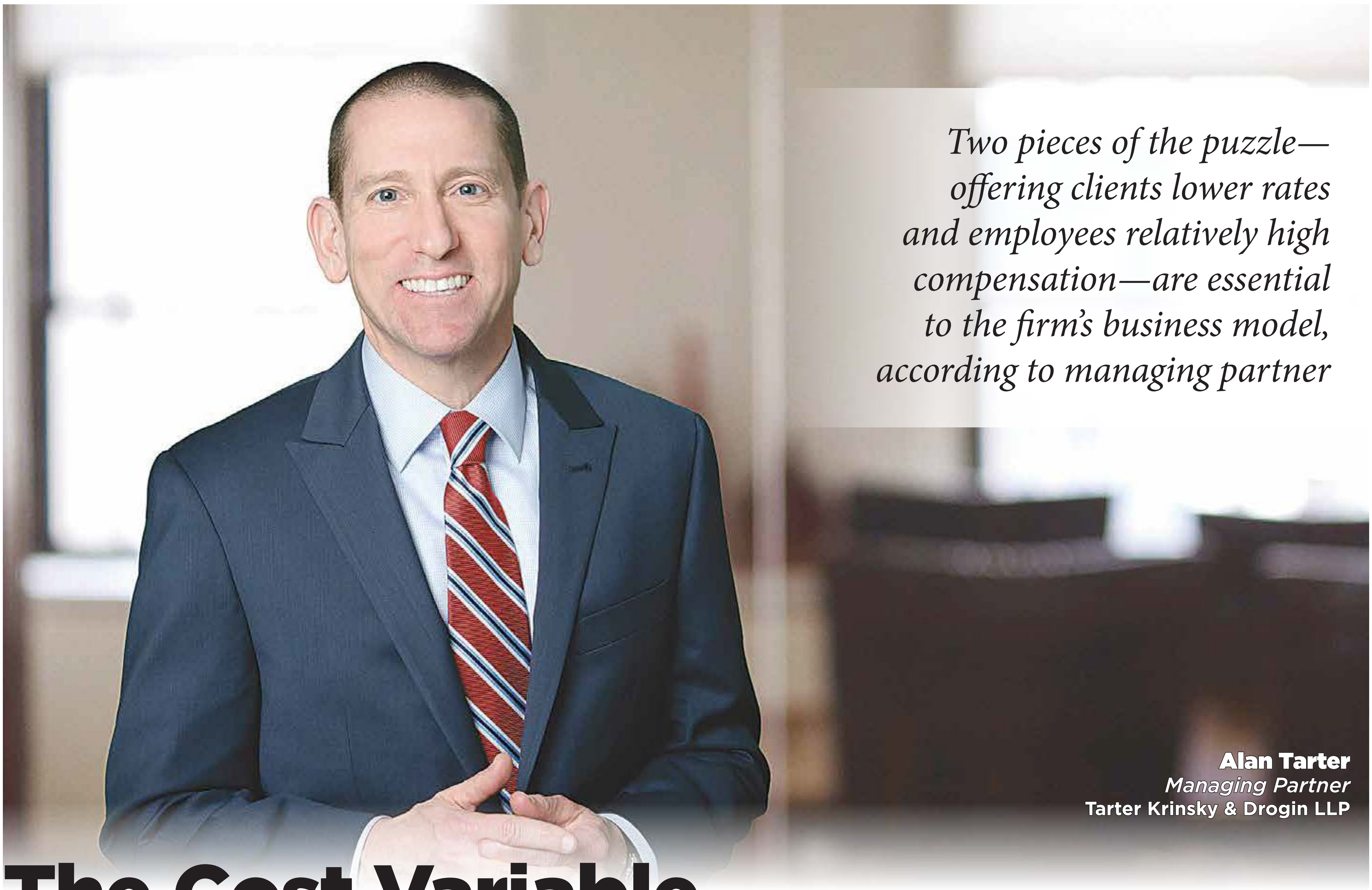


Two pieces of the puzzle—offering clients lower rates and employees relatively high compensation—are essential to the firm's business model, according to managing partner

Alan Tarter
Managing Partner
Tarter Krinsky & Drogin LLP

The Cost Variable

How a New York City-based law firm keeps its costs under control

By Chris O'Leary

Tarter Krinsky & Drogin LLP has to keep its balance to survive in the ultra-competitive New York City legal industry. The law firm wants to offer lower rates than its larger competitors to attract new business. It needs compensation levels to stay on par with those of its rivals, to ensure it retains top talent. And its overhead needs to stay under control while the firm operates in a city whose commercial real estate market is known for exorbitant rents.

Two pieces of the puzzle—offering clients lower rates and employees relatively high compensation—are essential to the firm's business model, according to managing partner Alan Tarter. "We're a full-service firm, but our rate structure is around 35% less than the average large firm," he says. "But we have all the resources and practice areas of a large law firm. Our rate structure is part of our value proposition."

That leaves overhead as the variable the firm can control. "We're very careful with overhead because we want to maintain our rate structure. We feel like it's a major competitive advantage for us to provide the same services as a larger firm but at a lower cost."

Finding new ways to reduce costs becomes an essential strategy. "If overhead starts to go up, compensation has to go down, or rates have to go up," Tarter says. "We don't want either of the two to happen. That means we have to control overhead, and control costs."

Conquering real estate

Given its Manhattan office location, keeping real estate costs down is a major priority for Tarter Krinsky & Drogin. Real estate-related expenses are its second-highest expense after making payroll.

When moving to its current office space on Broadway about 10 years ago, the firm locked in its rent for a long-term period. This protects them against the price volatility of the New York commercial real estate market.

More importantly, the firm worked to maximize its office space. "We wanted to get the most appropriate ratio of attorneys per square foot that we could get into the space," Tarter says. "That allows you to be more profitable within your space. The more staff you have, the more revenue you can produce."

A common New York standard is that each attorney needs roughly 750 square feet to 1,000 square feet of office space. Tarter Krinsky & Drogin cut that ratio in half, allocating usually 500 square feet to 525 square feet of space per lawyer. That way, two attorneys work in the space that another firm would have allocated for one. Before it moved into its current location, the firm divided the space's existing offices to achieve this goal, putting up new walls to create more offices.

And when the firm expanded to another floor of its building, its landlord offered to install a stairwell that would link the floors, thus letting employees avoid having to use the elevator. It was a tempting offer, but the firm declined. "We were concerned that we'd lose too much space on the two floors if we put in an internal stairwell," Tarter says. "This would have in essence increased the costs of space per attorney."

Now Tarter Krinsky & Drogin is considering further steps to cut real estate costs, such as having more of its attorneys work remotely, or working in satellite offices outside of New York, which have lower rents (it has a Princeton, New Jersey office, for example). It's a creative way for the firm to keep expanding staff while not further expanding its Manhattan office. So far, the firm's off-site workers are relatively few. "It's something we're testing to see how it works," he says. "It's another way to reduce your real estate costs—having paralegals and attorneys working from home or in other areas that have lower-cost situations."

Given the improvements in communications technology, whether Skype, FaceTime or other web-based programs, the need for all attorneys to work in the same building diminishes. As Tarter says, "the same phone that would otherwise ring in New York will ring in these satellite offices instead."

Knowing when to outsource

Another way Tarter Krinsky & Drogin reduces costs is through its judicious use of outsourcing. "When we were smaller, we had our accounting department and a controller. We had a need for a CFO, but not a full-time one," Tarter says. So the firm outsourced the CFO function to an official who “spent about 20% of his time on our firm,” he adds. “That allowed us to get the benefit of a CFO and their ideas without necessarily paying for that person 100% of the time.”

While the firm is large enough today that it needs to employ a full-time CFO, Tarter recommends that smaller companies just starting out should consider outsourcing the CFO function. “It’s way to get a great service that’s also a cost saver.”

And the firm still outsources its chief technology officer duties. “We have a small IT group servicing us,” Tarter says. “While we have an IT manager, for certain projects we’ll outsource that function” to a third-party CTO. “That way we get the intellect of a chief technology officer while paying less than full cost for it.”

Some things it prefers to keep in-house, however, believing that the potential cost savings aren’t worth losing control over what it considers to be essential functions. For example, while some firms outsource their legal research, Tarter Krinsky & Drogin prefers to have that work done under its own roof.

Further, improvements in technology is enabling the firm to bring some formerly-outsourced duties back into its offices. E-discovery, for example, used to be “more cost effective to outsource,” he says. “But over the past two years we’ve licensed e-discovery in the cloud. It’s allowing us to do more in-house, and at a fraction of the cost to our clients. As this is our clients’ money [to pay for e-discovery], that’s a good thing.”

> “If overhead starts to go up, compensation has to go down, or rates have to go up. We don’t want either of the two to happen.”

In the future, Tarter anticipates moving more databases and programs into the cloud. “We have certain programs that are in the cloud now, and certain programs that are maintained in our office,” he says. “But I think the trend is definitely moving towards the cloud. For smaller businesses, doing that makes all the sense in the world. We still have a number of different programs that are interdependent upon each other, so sometimes [moving to the cloud] is still difficult to do.”

Little things equal big savings

It’s not just big-ticket items like technology and real estate where firms can achieve substantial savings. Don’t neglect basics, like trying to reduce heat and electricity costs in your office spaces, Tarter says.

Recently Tarter Krinsky & Drogin installed a system that allows it to monitor and control energy usage off-premises. “It’s let us make adjustments in the scheduling of our HVAC systems, which has reduced costs,” Tarter says. For example, lights and air conditioning are programmed to go off for certain periods, which adds up to major savings. “You find it’s the little things, like reducing air conditioning on the weekends when people aren’t around.” And if someone has to pull a work-weekend at the office, they can manually adjust the thermostat in their workspace.

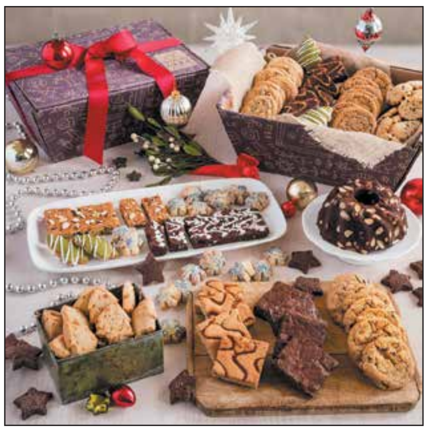
The firm also implemented new accounting technology that gives it a more precise reporting of expenditures. “It gives us the ability to review all of our expenses, on a monthly or annual basis,” he says. This way Tarter Krinsky & Drogin has the information they need to renegotiate with vendors, if the firm notes that costs have increased without any parallel spike in usage. This knowledge is particularly important in such areas as phone and wireless technology.

“Your technology budget can get out of control if you allow it to,” Tarter says. “If clients aren’t watching, you might get little increases in price here and there, and then you’re not as competitive.” And any little increase in expenses can have repercussions far up the food chain. After all, eternal cost vigilance is the price of staying in business.

SPONSORED CONTENT

Five tips to maximize your holiday marketing efforts

It’s not too soon to start planning for the upcoming holiday gift-giving season. If you haven’t been acknowledging your best customers and clients throughout the year, this is a great time to get your customer appreciation efforts back on track. Here are some suggestions for making that happen:



Dancing Deer’s new holiday packaging includes locally sourced hampers using recycled materials.

1. Be thoughtful

A personalized approach can win you a lot of goodwill. Are you sending a gift to a large office? Choose a package that’s easily shareable. Are there staff members who have special dietary needs? Consider including some gluten-free treats so they don’t feel left out.

Sarah McNeill is the Sales Operations and Account Manager for the Dancing Deer Baking Co. She says that the best gift retailers offer a variety of options that allow you to match the gift to the recipient.

“Dancing Deer has gifts that range from single serving samplers to large crowd-pleasing gifts,” she notes. “We also offer a variety of gluten-free products, as well as a soy and dairy-free Molasses Clove cookie.”

2. Fine-tune your list

First, make a list of your best customers. Be careful to take into account not only the individuals and businesses that provided the most direct business, but also the customers and clients who provided the most referrals over the past year.

Second, review your list and consider adding contacts that have sent some business your way, but who you think have the potential to send more.

Third, think about adding potential customers who could bring significant business your way. Giving gifts won’t substitute for face-to-face business development, but it’s a great way to create additional goodwill.

> **“Dancing Deer offers a simple and sophisticated gift option for our clients. The ability to customize the packaging with our own branding creates an impressive presentation.”**
>
> **– Pauline Donnelly, Donnelly & Co.**

3. Get creative with your timing

Know what other businesses in your market do with regard to gift-giving and take a different approach. If everyone gives gifts around the December holidays, consider a Thanksgiving gift. Or send a package after the New Year, when the post-holiday blues can set in and your gift will stand out.

McNeill says that some savvy Dancing Deer customers send gifts well outside the typical holiday time-frame.

“The end of fiscal quarters can be a good time to give gifts,” she says. “Or if you’ve made your sales goal or hit a milestone, it’s great to share that success with your clients.”

Getting out ahead of the pack can also save you money, says McNeill. “Start looking now. This is when the deep discounts are.”

4. Don’t forget a personal message

The best acknowledgements thank the customer or client and specifically reference the business that was sent. That personal connection will only enhance the value of your gift.

Dancing Deer offers free personalized messages with their gifts, and can also include business cards. Customers who want to add their logo or handwritten notes can do so for only $2 per gift, says McNeill.

5. Don’t lose momentum

To get the most out of your marketing efforts, don’t let your holiday gift be the only time your customers and clients hear from you. Schedule a series of thank-you lunches. Invite customers to events they might be interested in. Send a gift on the anniversary of your work relationship. Going the extra mile will keep you top of mind throughout the year.

Most importantly, be creative in finding ways to stand out from the crowd with a generous and memorable gift.

DANCING DEER BAKING CO.

www.DancingDeer.com