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 optimizes 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.
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 Term.

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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