

LEGAL SPEND MANAGEMENT PRIMER

The Practical Guide to Strategic Legal Spend Management Initiatives

Law departments today have to find ways to manage and reduce legal spend without a negative impact on the quality of advice received or the achieved outcomes. Which initiatives will bring the fastest results, best outcomes, and cause the least disruption (and take less convincing of stakeholders)? In this primer, Peter Eilhauer and Matt Todd of Elevate introduce the Legal Procurement Matrix and detail the pros and cons of different cost-savings initiatives. They show how you should prioritize and strategically approach legal spend management.

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Legal Spend Under Management & The Legal Procurement Matrix

Traditionally, law departments take a “**Passive**” **Management** approach to legal spend: They develop and deploy policies and procedures that encourage self-regulation of spend management, but take little direct influence on benefits and savings. “**Active**” **Management** means the law department (with legal procurement’s help) actively engages with outside counsel to ensure policies and procedures are followed while benefits and savings are realized. “**Collaborative**” **Management** goes a step further and includes developing shared accountability between outside counsel and in-house lawyers to deliver innovative solutions.

There are many Legal Spend Management initiatives that law departments can undertake, ranging from simple process or policy changes to more complex and comprehensive programs. Each initiative can deliver cost savings for the company and offer certain performance benefits. Different

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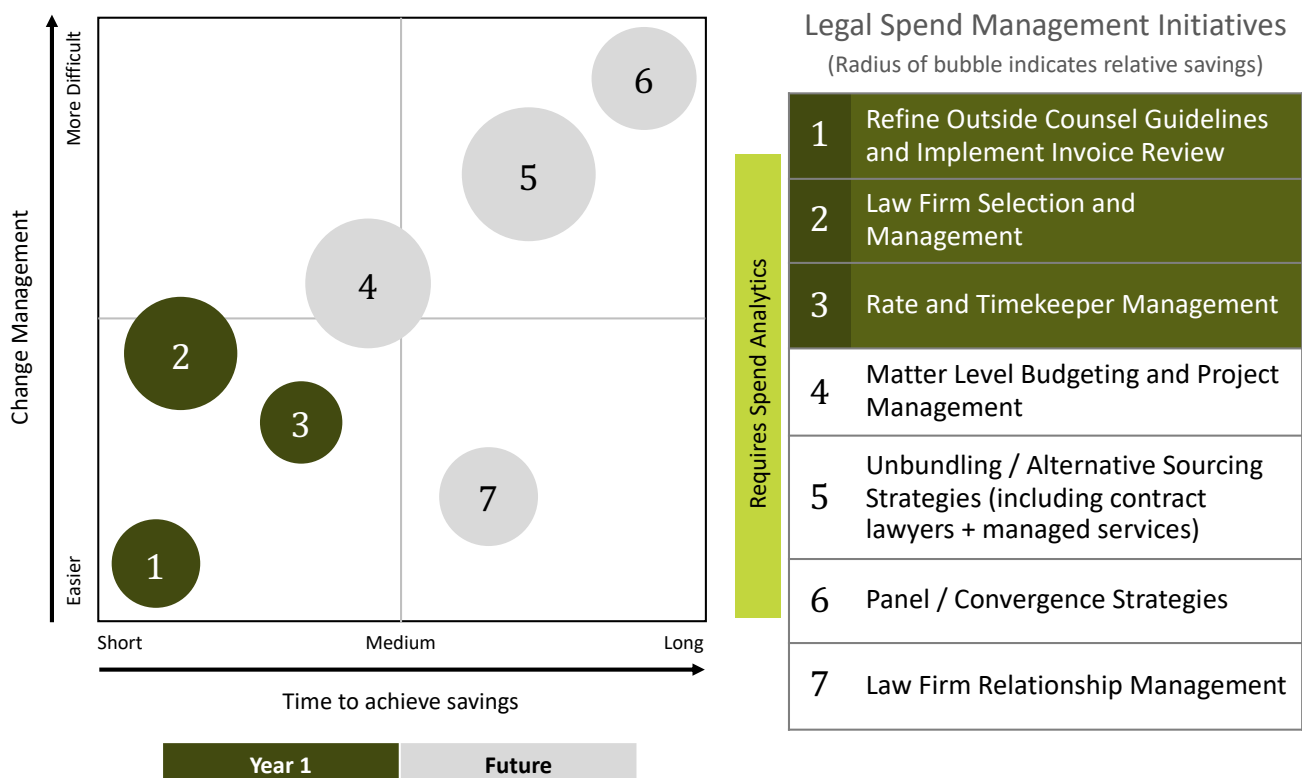
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initiatives also have varying time horizons and may be better suitable for certain organizations and cultures than others.

We use the *Legal Procurement Matrix* to map different initiatives by:

- ✓ **Time to Achieve Benefits:** Strategies in the left quadrants typically realize benefits more quickly than strategies in the right quadrants.
- ✓ **Change Management Requirements:** Strategies in the bottom quadrants tend to be easier to deploy – either technically or politically – than strategies in the top quadrants.
- ✓ **Benefit Opportunity:** Larger bubbles show strategies that are more likely to deliver greater cost savings than strategies indicated by smaller bubbles.

Such a mapping exercise will help you prioritize your Legal Spend Management (LSM) Initiatives. We have included a number of common LSM initiatives in the below matrix as an example of such a mapping exercise:



The Legal Procurement Matrix

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A law department that requires fast cost control measures might select projects in the bottom-left quadrant, while an organization looking for large and sustainable benefits across a longer time horizon might consider projects in the top right quadrant.

It is not necessary to implement Legal Spend Management Initiatives in the numbered sequence (from 1 to 7). When designing your strategic program, begin with both short and long-term work streams so you can realize the benefits both quickly and consistently. You need a practical and pragmatic approach. We recommend that you realize savings and earn your way to value and increased activity.

In addition to defining **which initiatives** your organization should prioritize, you also need to define **to what degree** you plan to deploy these strategies. This can have a significant impact on the benefits you are likely to reap, the best time to deploy the initiative, and the relative stress it will cause in your organization. This concept of Legal Spend Under Management (LSUM) helps to set proper expectations on the outcome of your initiatives.

| Level | Definition | Key Performance Indicators |
|--|--|---|
|  Not managed | Spend is decentralized, invoices are manually collected and paid, no consistent way to collect spending data. | <ul style="list-style-type: none"> Accounts Payable spend reports (or nothing) |
|  Visible | Spend is centralized in an e-billing system, data is managed through ad hoc reporting or a business intelligence tool, and reports can be generated and delivered to track spending. | <ul style="list-style-type: none"> E-billing system implemented Data linked to business intelligence tool Spend reports can be communicated by department/group |
|  Passive | Spend is managed through e-billing rules, basic invoice auditing, and new matters and timekeepers are monitored for compliance. Performance reporting is provided internally. | <ul style="list-style-type: none"> Engagement letters Billing requirements New timekeeper and matter processes Internal spend and rate reporting Light legal bill review |
|  Active | Rate approvals are managed centrally through a negotiation process. RFPs, competitive bids, or discounts are used to set rates and drive down costs. Work is right-sourced to appropriate firm or third-party provider and invoices are reviewed for compliance. | <ul style="list-style-type: none"> Timekeeper rate negotiations process RFP/RFQ policy Alternative fees and discounts Unbundling/realigning work Legal bill review |
|  Collaborative | Competitive bidding managed at the matter level and budgets are provided. Matters are actively managed and outside counsel, staff lawyers, and legal operations work in partnership to manage critical matters. Shared ROI and alignment with outside counsel & other vendors. | <ul style="list-style-type: none"> Legal project management Detailed matter budgeting Predictability and forecasting Benchmarking Sharing of best practices |

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Now, let's discuss some common Legal Spend Management Initiatives:

Legal Invoice Review

Legal Invoice Review is the process of applying **Outside Counsel Guidelines** (OCGs) to law firm invoices and (if necessary) adjusting invoices when they are non-compliant with the guidelines.

OCGs should, among other things, provide outside counsel with their client's expectations regarding billing procedures. They identify not only what tasks and expenses are compensable, but the format for outside counsel's billing. When developing OCGs, the focus should be on clarity (i.e., are the expectations and the consequences for failing to meet these expectations clear and unequivocal). The absence of clarity gives counsel the opportunity to challenge, sometimes successfully, the application of the client's guidelines. Consequently, when developing guidelines, the evaluator should look at them from the perspective of outside counsel, asking the question: Can I reasonably challenge this expectation? Are the consequences of non-compliance clear? If the answer to either question is "no," additional clarity is necessary.

Law departments traditionally "review" invoices – in-house lawyers are tasked with reviewing them before payment. A strategic Legal Invoice Review goes further and it includes a two-step workflow where a centralized invoice review team conducts the initial review, then the in-house lawyer reviews the invoice. This ensures consistency in how reviews are conducted and reduces administration time for in-house lawyers.

In-house lawyers may be concerned that adjusting bills negatively impacts the relationship with their firms; while an aggressive invoice review program may create stress, a "practical" review that adheres to best practices, adjusts for clear guideline violations, and bears in mind the spirit of the invoice and the overall relationship will minimize disruption and encourage a healthy program.

HOW TO MAKE IT HAPPEN

A centralized invoice review team can be organized in a relatively short time – typically in less than 45 days. As part of the rollout, you should refresh your organization's OCGs, distribute and communicate them to all in-house staff and outside counsel via trainings, webinars, and Q&As. This helps set expectations and manage change.

Start with a "light" review before moving to stronger controls (see chart below). This allows in-house lawyers to calibrate their expectations with the invoice review team. It also gives the review team time to coach outside counsel and helps facilitate timely payment of invoices without unnecessary rejections. While cost savings are dependent on the level of review applied, a properly aligned

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invoice review program will save time lawyers spend in review as the invoices are properly noted to their expectations.

| Level of Review | | | | |
|--|--|---|--|---|
| None | Light | Moderate | Full | Aggressive |
| <ul style="list-style-type: none"> Guidelines Exist No Review or electronic audit against guidelines No savings | <ul style="list-style-type: none"> Apply binary expense reductions and some expense-related fees No appeals on reductions 1–3% savings depending on initial firm compliance | <ul style="list-style-type: none"> Apply all binary expense and fee reductions, including reductions on administration work No Subjective violations (reasonableness, staffing) 2–5% but may be higher based on initial compliance | <ul style="list-style-type: none"> Apply all binary expense and fee reductions Apply subjective violations (reasonableness, staffing) Allow appeals and resubmissions 4–6% but may be higher based on initial compliance | <ul style="list-style-type: none"> Apply automatically generated reductions Apply other guideline violations Apply subjective violations Off-guideline violations (aggressive cost reduction) |

HOW TO MANAGE IT

Passive Management:

- OCGs are updated, distributed, and confirmed with outside counsel.
- Expense rules are defined in eBilling, some fee rules have been developed.
- Invoice review is potentially centralized, but focused on billing compliance, not error adjustments.

Active Management:

- First-level invoice review is implemented for majority of spend.
- Optimized fee and expense rules are implemented within the eBilling platform.
- A well-defined appeals process is implemented to manage issues and disputes.
- Detailed reporting on law firm performance is provided to stakeholders to correct performance gaps.

Collaborative Management:

- Clean and accurate invoice review data is used to inform rate negotiations and develop fixed fees.
- Invoice review is managed upstream by the law firm or as a shared responsibility.

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| LEGAL INVOICE REVIEW | | |
|--------------------------|-------------------|-------------------------|
| Time to Achieve Benefits | Change Management | Benefit Opportunity |
| 1-3 Months | Low | 2-6% reduction in spend |

Law Firm Selection and Management

Law Firm Selection and Management means strategically assigning matters to firms to ensure the right “fit” and quality. It does so through a formalized, controlled, and consistent approach to selecting and instructing law firms across the law department. This includes:

- Matter scoping
- Selecting of firm(s) to approach
- Using competitive commercial processes such as mini-RFPs/tendering or auctions
- Negotiation processes based on clearly defined proposal details and success criteria
- Recording the engagement, its scope, commercial aspects and underlying assumptions
- Tracking in a ‘living’ document and updates throughout the duration of the matter.

A supportive Legal Procurement team will find ways to adapt its traditional tools so that, potentially, each matter could be competitively scoped to ensure the correct fit.

HOW TO MAKE IT HAPPEN

Effort and timescales for Law Firm Selection and Management will vary depending on the approach you take. To succeed:

- ✓ **Set clear expectations:** Spell out expected behaviors in your governance guidelines or policy - e.g. when to use tendering, guidance for negotiating rates or alternative fee arrangements (AFAs), the use of panel or off-panel firms. Actively consult both in-house counsel and outside counsel on these expectations to gain their buy-in (and compliance).
- ✓ **Support key expectations with dedicated resourcing, technology, and data:** If you intend to make use of tendering, provide a dedicated resource to help issue RFPs and make proposal comparisons. If you intend to encourage the use of AFAs, have a resource dedicated to scoping work, tracking successful AFAs and capture AFA-related data across your organization to support future negotiations. If the use of a panel arrangement requires convergence of the number of firms, ensure in-house counsel have ready access to panel

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firm competencies, negotiated rates and those value-added ‘extras’ which are often forgotten about during individual matter negotiations.

Technology can potentially support any process-driven activity and help track your data: e.g. look at standardizing scoping and RFP inputs/outputs such as Q&A, rates, and resourcing tables. There are many technology solutions which may help you at the selection stage. Alternatively, you may choose simple SharePoint or form-based processes.

- ✓ **Embrace change management aspects and track compliance, and successes:** Focus on key areas of external spend, look for champions of the new process, track both successes and failures, continually assess priorities and areas of focus, and discuss the development at leadership team meetings.

HOW TO MANAGE IT

Passive Management:

- Selection and instruction policy/guidelines have been circulated and embedded with in-house and external counsel.
- Supporting data for negotiated rates, extras, and points of contact at the firm etc. are readily available for in-house counsel for use on new instructions.

Active Management:

- Dedicated resources are available to support selection and instruction activities.
- Metrics on department performance against policy expectations and formal savings are tracked.
- Regular updates and forecasts of legal matter pipeline are given to enable proactive approach to instruction support.

Collaborative Management:

- Regular playback and 360-degree feedback of instruction and tenders with firms.
- Data sharing in key areas such as tracking against assumptions / experience of effort and resourcing against similar scopes of work.

| LAW FIRM SELECTION AND MANAGEMENT | | |
|-----------------------------------|-------------------|---------------------------|
| Time to Achieve Benefits | Change Management | Benefit Opportunity |
| 6-12 Months | Medium | 10-20% reduction in spend |

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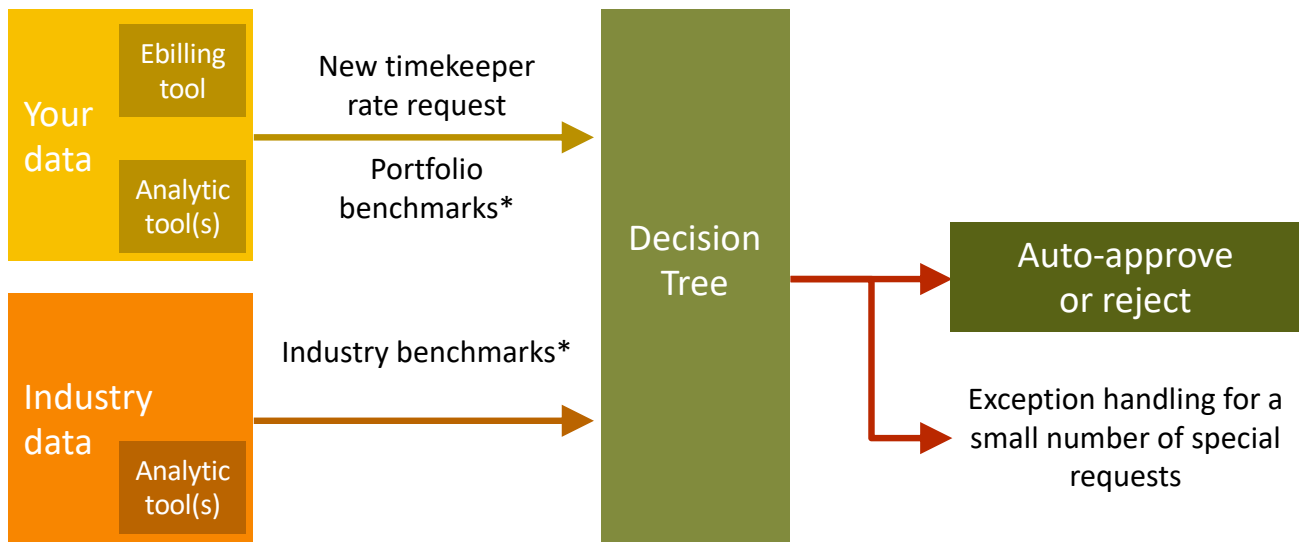
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Rate and Timekeeper Management

The purpose of **Rate and Timekeeper Management** is to reduce lawyer administrative time and to separate rate conversations from the overall relationship management. By centralizing work to an invoice processing team with clearly defined roles and an objective approval system, outside counsel rates and, equally important, proper staffing can be maintained.

Rate and Timekeeper Management includes the approval of **annual rate increases** as well as the **intake and approval of new timekeepers** added to new (or existing) matters. Law departments have historically lacked a sound method for verifying whether rates charged are within a reasonable range for the type of the work performed. Collecting, processing, and approving timekeepers and rates puts tremendous operational strain on in-house counsel. In a decentralized process, in-house counsel often either “automatically” approve rates and new timekeepers (which increases costs and risk) or conduct one-off negotiations that may add as much cost as the problem they aim to solve.

A more efficient way to manage rates and timekeepers would be to centralize rate requests, process them according to a defined set of criteria (i.e. a decision tree), and manage the onboarding of new timekeepers or rates to ensure entries are compliant:



** based on type, impact and complexity of work*

The “decision tree” above can be as simple as a brief questionnaire:

- Has the timekeeper received a rate request in the past two years?
- Does the in-house lawyer agree this timekeeper is necessary to this (or future) matters?

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A more elaborate decision-tree would include in-depth analysis that considers portfolio and/or market data in evaluating a rate, such as:

- Is the timekeeper within X percent of the average rates within the company’s portfolio of similar matters given location and level of experience?
- Is the timekeeper’s requested rate within generally accepted market ranges?
- Is the timekeeper’s requested rate and level prudent for the work considered, based on risk and complexity of the matter?

A data driven process that utilizes your own **Portfolio Data** to evaluate decision conditions will provide an excellent benchmark during negotiations. There is no better benchmark than what you have historically paid to negotiate with your firms. **Market** or **Industry** data can add a level of refinement to ensure that your rates are not only appropriate for your own business, but also compare well to what organizations pay.

Be careful when benchmarking your data: Data from public sources often tracks “rack” rates (non-discounted rates) or shows pooled billing data, which may reflect the discount/buying power of clients contributing to the pooled data – which may be dramatically different from yours. It may also take into account discounts outside the hourly rate (e.g. volume discounts or relationship credits). When using benchmarks, ensure that they are from organizations similar to yours in industry, size, complexity, and location.

HOW TO MAKE IT HAPPEN

Centralizing timekeeper-processing saves in-house counsel time and relieves them of one of their least favorite administrative tasks. The initial step can usually be done in a relatively short amount of time: as timekeeper management procedures are often included in a company’s outside counsel guidelines, you may only need to re-distribute (or refresh) your guidelines. In a second step, develop your organization’s “rate wizard”, your criteria for objectively reviewing rates. The better your grasp of your own portfolio and rate data, the better your data model will be.

You may experience some pushback when you put in place more stringent rate management rules. This can often be solved by a clear explanation of the process, rules, and controls, and the welcome relieve of administrative time off your lawyers’ plates. To mitigate concerns about negotiating on more complex or significant matters, add a step to evaluate rates with your in-house lawyers until they become more comfortable.

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If your purchasing power in the market permits, move firms to a common date/time period for rate increase submissions and proactively notify firms when they are allowed to increase their rates – rather than waiting for them to come to you with their demands.

HOW TO MANAGE IT

Passive Management:

- Rate requests are centralized to reduce lawyer administrative time.
- The eBilling system is configured to automatically cap rates at the mutually agreed-upon price.
- Rate approvals are controlled by the company, not the firm. This ensures correct rates are entered and only approved timekeepers are onboarded.
- Rates are confirmed as submitted, or via workflow-driven approvals.

Active Management:

- A “decision tree” model is developed to systematize rate reviews and uniformly apply common criteria (i.e. ensuring all rates adhere to “rate lock” policies).
- Rates are compared to portfolio billing data to ensure compliance with the law department’s own benchmarks.
- Rates may be compared to market data.

Collaborative Management:

- Comprehensive timekeeper rates are used to inform rate negotiations and develop fair fixed fees.
- The client and firm have better discussions around the right resources to work on the right matters.

| RATE AND TIMEKEEPER MANAGEMENT | | |
|--------------------------------|-------------------|---|
| Time to Achieve Benefits | Change Management | Benefit Opportunity |
| 1-6 Months | Low | 4-7% reduction in spend on <u>new</u> timekeepers |

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Matter-Level Budgeting & Project Management

The purpose of **Matter-Level Budgeting and Project Management** is to set clear cost expectations and a project plan for each matter. It necessitates collecting information and analyzing budgets to control (previously) unknown spend and should be done at the outset of a matter, either as a competitive bid or as a single budget request.

Project management in this context is intended to encourage visibility into spend on the matter, to predict spend increases or decreases, and to proactively manage any changes in the overall budget. Budgeting can range from a high-level number submitted by the primary lawyer on the matter (“top down” approach) to an in-depth budget using phases, tasks, and specific activities (“bottom up” approach).

While all matters should require a budget, consider the effort to capture and track budgets: Matters with expected spend below a certain threshold should be assigned a top-down budget (as intensive management will produce diminishing returns), while matters expected to be large spend should require a bottom up budget.

Budgeting and project management can substantially impact overall legal spend. Strict adherence to budgets and overages can generate large write-offs as firms are brought into line and expectations are set. In the longer term, budgets should become more accurate. This may reduce traceable cost savings (i.e. calculating benefits based on write-offs), but result in a reduction of overall spend and cost per matter phase and task. More than any other strategy, budgeting and project management requires the right tools and technologies in place to measure and monitor budgets, variances, and cost savings.

HOW TO MAKE IT HAPPEN

Budgeting may include both process and analytics components. A budget intake form should be constructed and distributed to firms to complete to the level of detail established (top down or bottom up), and submitted via a centralized collection process. That data can then be aggregated into a summary or rolled up into a budget viewable by the relevant practice group. To then track actual spending compared to budget, a data feed from the law department’s eBilling system should be created to capture actuals and report out overages.

Although spend benefits may not be realized until much later, setting budgets will immediately help a law department predict and forecast future spend. For certain matter types or specific matters, the budget-setting process can also encourage a shift to fixed fees, which can improve legal spend.

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It is important to have executive buy-in before initiating a budgeting program. Already a tactically challenging process, a program will be substantially harder to deploy when trying to coordinate with unsupportive team members. It is helpful to focus on certain matter types, geographies, or deploying a tiered budget program that focuses on significant matters only.

CAEL Project
CAEL Project Matters All Firms
⋮

Matter Summary | [Matter Plan](#) | [Notes](#)

KM125399: Power interruption at Boise pulp treatment plant

| | | |
|--------------|--------------|---------------|
| Budget (\$): | Actual (\$): | Actual (hrs): |
| 2,100,000.00 | 1,551,794.31 | 4,402.5 |

Budget to Actual

74%

Matter Progress

70%

Active Phases

| | Est. (\$) | Fees (\$) / Exp. (\$) | % Est. | End Date |
|----------------------------------|--------------|-----------------------|--------|----------|
| L100 Case Assessment, Dev... | 1,163,170.00 | 799,060.82 / 0.00 | 69% | |
| L200 Pre-Trial Pleadings and ... | 829,730.00 | 587,499.87 / 0.00 | 71% | |
| DISB Disbursement phase | 0.00 | 0.00 / 165,233.62 | 0% | |

Fees by Person

| | Total Fees* | % of Total |
|------------------|--------------|------------|
| Lucienne Bachus | \$24,724.10 | 1.59% |
| Eulah Heckart | \$40,034.50 | 2.58% |
| Florine Dinh | \$53,289.21 | 3.43% |
| Lisbeth Wiseman | \$92,264.34 | 5.95% |
| Kathleen Keeling | \$105,255.39 | 6.78% |



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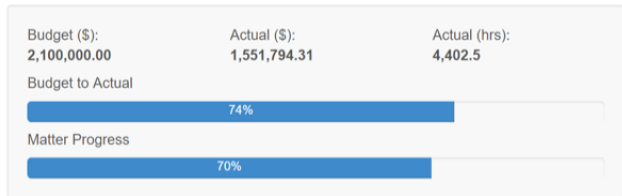
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CAEL Project

CAEL Project Matters All Firms

Matter Summary | Matter Plan | Notes

KM125399: Power interruption at Boise pulp treatment plant



| Phase/Task | Estimate (\$) | Actual (\$) | Actual (hrs) |
|--|--------------------|-------------|--------------|
| > L100 Case Assessment, Development and Administration | 1,163,170.00 | 799,060.82 | 2,557.6 |
| Phase Progress | Estimate to Actual | | |
| | | | |
| > L200 Pre-Trial Pleadings and Motions | 829,730.00 | 587,499.87 | 1,845.0 |
| Phase Progress | Estimate to Actual | | |
| | | | |
| > L300 Discovery | 0.00 | 0.00 | 0.0 |
| Estimate to Actual | | | |

HOW TO MANAGE IT

Passive Management:

- A centralized budget program is deployed to capture estimated quarterly or annual spend by matter (usually “top down” budgeting).
- Budgets are tied to an “actuals” report using data in an eBilling system and/or accounts payable.
- May include budgeting flags when total amounts approach a certain threshold (i.e. 75 percent of a matter).

Active Management

- Establish clear expectation that budgets should not be exceeded. Instead, they are either proactively re-forecasted due to extreme events, capped or written off.
- High spend matters are managed using “bottom up” budgeting.
- Budget reviews are incorporated into quarterly business reviews.

Collaborative Management:

- “Bottom up” budgeting is used for a larger portion of matters.

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- Additional technologies are used to track Work in Progress. Invoicing and project status information may be used on a continuous basis.
- Budget management reports on the reasons for budget changes, not only that a budget change occurred.

| MATTER-LEVEL BUDGETING AND PROJECT MANAGEMENT | | |
|---|-------------------|--------------------------|
| Time to Achieve Benefits | Change Management | Benefit Opportunity |
| 6-9 Months | Medium | 5-10% reduction in spend |

Unbundling / Alternative Sourcing

Unbundling and Alternative Sourcing is intended to optimize the allocation of legal resources by engaging third-party personnel. **Unbundling** is the exercise of identifying distinct legal tasks that can be separated and completed individually. Tasks can be assessed for:

- ✓ **Complexity:** What are the skills and experience level needed to complete the task?
- ✓ **Volume:** Is the task repeatable and does it repeat often enough to justify engaging additional resources?
- ✓ **Prioritization:** Which factors can impact the success of engaging alternate sourcing, such as required turnaround, visibility, importance, and level of risk?

Once discrete tasks are identified and assessed, a process flow can be built around the tasks to coordinate work between in-house counsel and third party resources.

Alternate Sourcing aims to reduce cost and turnaround times for legal services by utilizing third party legal resources (so-called Alternative or Ancillary Legal Services Providers) instead of in-house resources or traditional outside counsel.

HOW TO MAKE IT HAPPEN

Engaging legal resources as contingent staff can result in benefits in as little as a month, whereas managed legal services can take several months to upwards of a year to unbundle, design and create the infrastructure to implement.

Active management of alternate sourcing with limited engagement of other business departments or third parties can be accomplished with very little change management. When other business

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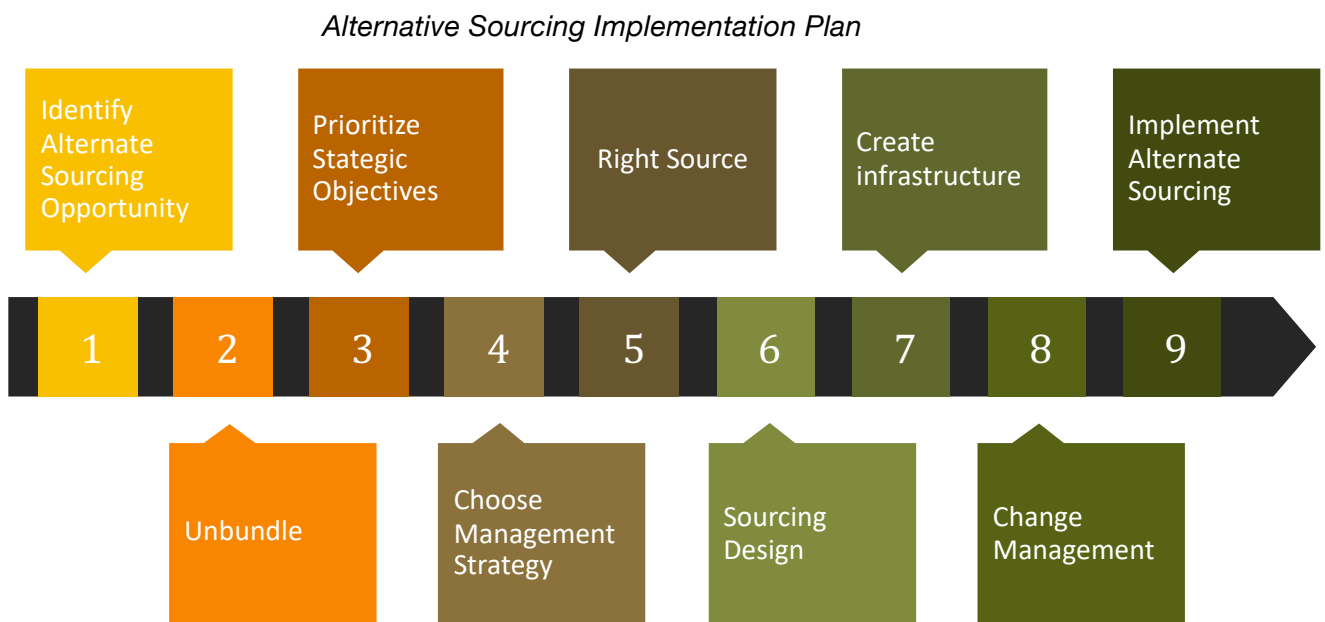
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departments or third parties will be impacted and the engagement is extensive, executive sponsorship and carefully planned and executed change management are critical to successful implementation.

When engaging an alternate source, it is important to weigh the potential benefits alongside strategic objectives identified:

- ✓ Cost reduction/savings
- ✓ Freeing-up time of internal resources and/or reducing use of outside counsel
- ✓ Compliance risk/mitigation
- ✓ Decreasing turnaround times

In assigning priorities to objectives be aware that emphasizing one benefit may decrease other benefits. For example, focusing on increasing compliance may result in little or no cost benefit.



HOW TO MANAGE IT

Passive Management:

- Processes, policies, and playbooks are used to provide guidance at all decision points and to empower alternative sourcing without direct oversight.
- Regularly scheduled KPI/Service Level Agreement (SLA) reporting is provided to ensure performance and compliance.

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- Well-defined governance is implemented to resolve issues and roles are clearly defined.
- Resources may be engaged to ensure in-house counsel is not impacted by increases in volume. Escalations are low.

Active Management:

- Governance, process, and guidance is in place. In-house counsel directly assigns, oversees the work, and participates in the completion of tasks.
- In-house counsel analyzes performance to determine success of alternate sourcing providers.
- Escalation volumes to in-house counsel are high.

Collaborative Management:

- Governance is aligned to ownership of tasks after unbundling.
- Process, policies and playbooks are in place to cover 80 percent of the work with clear escalation pathways for the remaining 20 percent of outliers.
- Data collection and analysis is configured to discover resourcing gaps and improve workflows in addition to measuring the provision of services against mutually agreed to strategic objectives.

| UNBUNDLING / ALTERNATIVE SOURCING | | |
|-----------------------------------|-------------------|---|
| Time to Achieve Benefits | Change Management | Benefit Opportunity |
| 1-12 (or more) Months | High | 20-80% reduction in spend on “right-sourced” activities |

Panel Convergence

Panel Convergence is the process of creating or refining panels of preferred provider firms and setting appropriate rates via a comprehensive RFP. Legal panels differ from other strategic sourcing events in a number of ways:

- ✓ **Large number of vendors:** Law departments can have hundreds of outside counsel firms supporting them on a wide variety of work. The work can vary by matter type, risk and complexity, jurisdiction, etc.

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- ✓ **Wide variety of rate structures:** While most firms will default to hourly rates, many firms offer alternative fee arrangements such as fixed and flat fees, fee caps and collars, in addition to discounts.
- ✓ **Relative immaturity of law firms' RFP capabilities:** While RFPs today are regularly used for legal services, compared to providers in other categories, not all law firms have robust business development teams that can respond to large RFP requests.

It is good practice to streamline bid requests to include only the most critical pieces of information, as any “unnecessary” information will significantly add time and effort to the sourcing effort.

While a legal panel can be an excellent cost reduction tool, it is important to note that those cost savings may not be realized for a long time. Legal panel revisions may only impact **new** matters, which means that any historical matter – many which can last for years – may not be billed at the new rates. Hence, benefits may only apply to a few matters early on, and gradually build as old matters close and new matters cycle in. A savvy Legal Procurement team must recognize that idea and not calculate the full benefit, but rather model out how savings will increase as the panel is utilized more and more, and measure more than just the old price compared to the new price, but consider benefits derived from improved staffing as well.

Additionally, there will be a sizeable portion of matters managed by firms that did not make the panel. You may need to choose between allowing non-panel firms to continue to process these “old” matters (and potentially incur additional costs or lowered service) or transitioning these matters to new firms at a substantial rework cost. In either case, the law department will require continued support throughout the first year in order to monitor and manage the matter portfolio.

HOW TO MAKE IT HAPPEN

Gather (and request) data: Your law department’s eBilling system and/or the financial systems of your law firms is/are likely have rich data sets you can use to analyze and to detect spending patterns. The overall cost of a matter is typically driven by the efficiency of the firm handling the matter, in terms of their ability to execute well and their approach to staffing the correct resources on the matter.

When you calculate potential savings or negotiate rates, understand the staffing leverage of the firm and the average leverage of the matter type. A firm whose partner usage is lower than average will generate more cost savings than a firm that uses more associates as their average rate will also be lower.

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While it may be tempting to shift to fixed fees in the initial RFP, it may prove more useful to reset hourly rates. As with any “unchecked” vendor relationship, rates will steadily increase until they are controlled. Applying a fixed fee without first understanding and re-setting hourly rates may mean that the fixed fee will be set too high.

HOW TO MANAGE IT

Passive Management:

- Hourly rate RFPs are distributed via standard RFP tools.
- Negotiations are based on submitted rate cards and benefits calculated against negotiation results.

Active Management:

- Hourly rate RFPs are distributed to outside counsel to establish legal panels by matter type.
- Data driven RFPs are aimed to calculate average rates against historical spending and model future benefits.
- Savings are tracked and measured in detail as new matters (or existing matters) are transitioned to the panel.

Collaborative Management:

- AFA opportunities are identified via data analysis and proposed to outside counsel.
- Sub-panel RFPs are issued to develop different panel tiers.

| PANEL CONVERGENCE | | |
|--------------------------|-------------------|---------------------------|
| Time to Achieve Benefits | Change Management | Benefit Opportunity |
| 6-12 Months | High | 10-15% reduction in spend |

Law Firm Relationship Management & Business Reviews

Law Firm Relationship Management is the concept of formalizing relationships, goals and objectives between the law firm and the law department. Business reviews are an important part of relationship management as they help set expectations and facilitate developing a mutually beneficial relationship. While the content of a business review depends on the maturity of the relationship with the firm, a full review includes:

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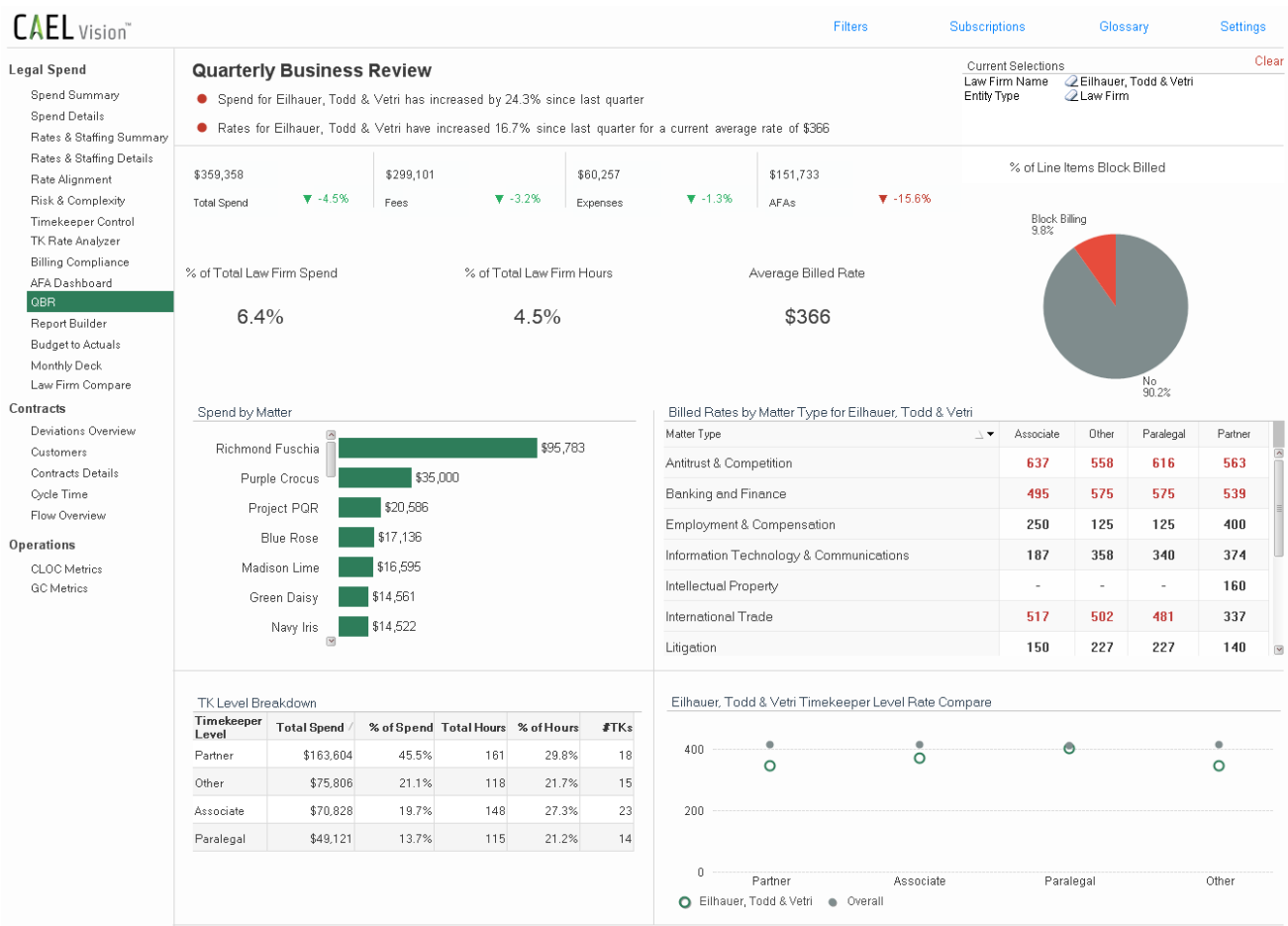
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- A **quantitative review** to analyze spend trends and cost variances. This is often the first step.
- Once clear spending expectations have been set, the focus can shift to include a **qualitative review**, measuring performance against company-defined goals or service levels.
- A mature 360-degree relationship will include a **collaborative review** with shared goals, aimed to identify or track progress on common initiatives.

Regardless of the stage of maturity, the business review should focus on driving results. Any data presented should tell a story and drive the participant to a decision, by identifying wins, communicating gaps and resolutions, or moving forward towards a mutual goal.

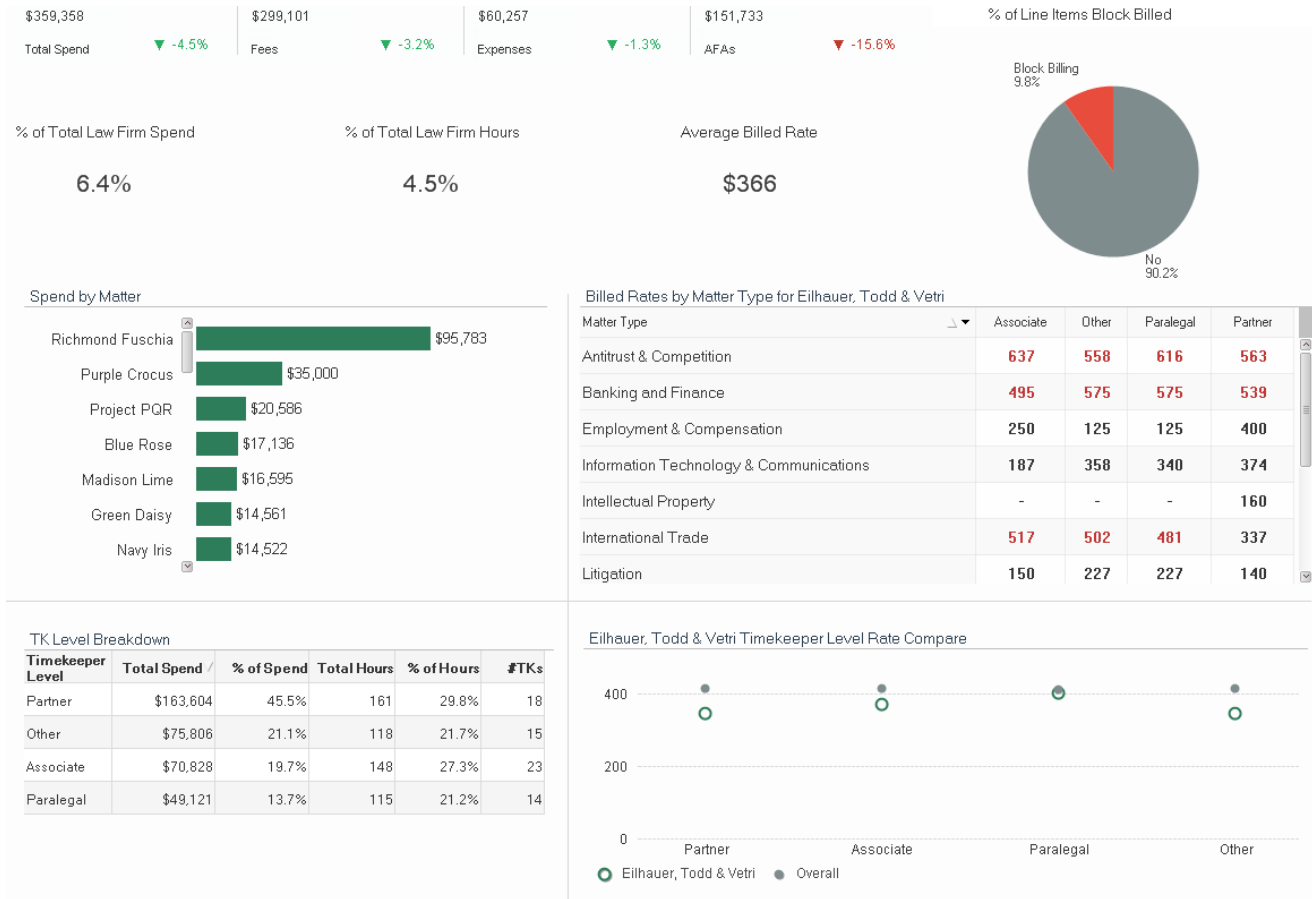
To be scalable, the organization should develop a template to uniformly collect business review metrics. This can be as simple as a PowerPoint slide or as robust as a business intelligence-supported dashboard.



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Top 5 Attorneys

| Timekeeper Name | Timekeeper Level | Billed Hours | Total Fees |
|-----------------|------------------|--------------|------------|
| Mark Kajpust | Other | 22 | \$5,936 |
| Peter Eilhauer | Associate | 20 | \$5,968 |
| Jon Bushman | Paralegal | 18 | \$5,057 |
| Jack Diggle | Partner | 18 | \$4,767 |

HOW TO MAKE IT HAPPEN

The act of scheduling and hosting business reviews can be time consuming, even with standardized templates. Give the purpose of the review a fair amount of thought before you dedicate significant time to the business reviews. Organize them based on relationship size and criticality:

- For **smaller relationships**, distribute business reviews reports with action items.
- For **larger relationships**, host periodic reviews (semi-annually or annually).
- For **premium relationships**, host quarterly reviews.

Start with a pilot review to develop and refine your template and a cadence that works for your organization before rolling out a full-scale program.

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Of all the Legal Spend Management Initiatives outlined in this Primer, Law Firm Relationship Management is the hardest to assign concrete benefits to since the program objectives may vary significantly. As a tactical cost savings measure, business reviews can be used to request credits, negotiate rates and drive performance improvement, but the real value in these programs is to serve as a forum for collaboration where innovations are discussed and significant impacts are measured.

Business reviews are typically easy to initiate – law firms love to meet their clients – but can become more challenging as the focus moves from informing outside counsel about new initiatives to requiring them to meet goals or change their behavior. It is important to build on each subsequent review so that change happens consistently.

A mature relationship may separate the tactical billing and service level agreement (SLA) measurement discussions from the innovative reviews so the meetings can focus on strategic projects rather than billing issues. If the relationship is healthy, any issues can be resolved without lawyer involvement.

HOW TO MANAGE IT

Passive Management:

- Spend metrics and qualitative measurements shared with firms.
- Firm is provided ranking information against its portfolio peers.
- Firm may provide its (own) performance data.

Active Management:

- Data exchanged includes scores, targets, SMART goals, and SMART recommendations (**S**pecific, **M**easurable, **A**ttainable, **R**elevant, and **T**ime-bound).
- Possible penalties or rewards are devised and communicated during meetings.
- Firm is expected to provide metrics to support a full 360 degree-scorecard review.

Collaborative Management:

- Tactical reviews are discussed in separate meetings or are immaterial due to alternative billing structures.
- Metrics focus increasingly on innovations and best practices.
- Business reviews can include legal project management reviews.

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| LAW FIRM RELATIONSHIP MANAGEMENT | | |
|----------------------------------|-------------------|--------------------------|
| Time to Achieve Benefits | Change Management | Benefit Opportunity |
| 3-?? Months | Low (to High) | 0-??% reduction in spend |

We hope you find this Primer beneficial and encourage you to use it to set up (or benchmark) your legal spend management program. For further questions on Legal Procurement and to access the largest repository on Legal Procurement, please go to www.buyinglegal.com/formembers. For further information go to www.elevateservices.com.

We wanted to thank the following authors for their expertise and their contribution to this Primer: Matt Todd, Suzanne Ganier, Jake Hills, Ed Wilson, Jessica Gunderson, Vince Vetri, Mark Vitaliano, and Peter Eilhauer.

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