

## 7 Tips to Manage Your Legal Spend

Recent surveys reveal that the second greatest challenge faced by corporate law departments is controlling their budgets, with a large part of the struggle attributed to spending on outside counsel. With increasing demand for legal services, rising law firm fees, and stagnant budgets, corporate law departments are under pressure to do more with less. Growing concerns over compliance issues have also resulted in the need for greater transparency into legal spending, liability exposure, and aligning results with value.

How can you get a better handle on your legal spending and find the right balance between your budget and the company's legal needs? These tips offer you some initial steps to help improve the way you manage your law department spending.

### 1. Understand the strategic objectives behind managing your spend.

The first and most important step in managing law department spending is to “know thyself.” Companies have different reasons for wanting to improve the way they are managing their legal costs. Some are motivated by Six Sigma principals, budgeting, or cost reduction initiatives. Others are looking for greater insight into how they are spending money so that they can achieve optimal law department staffing and expertise. Understanding your department's objectives will help you identify the best ways to help meet those goals.

### 2. Review the process for assigning and managing work (or who's doing what).

This step is straightforward. Evaluate how your department currently assigns work to both internal and outside resources. Determine what criteria you use for making those assignments and assess whether they are valid for your current practice environment. For those law departments looking to reduce costs, one solution is to “right-size” the work by bringing more work in-house or sending more to outside counsel. For example, do your inside attorneys have internal expertise or product knowledge that allows them to complete certain work more quickly and efficiently than outside counsel? You may want to make a similar assessment of the work you do in-house. Are your in-house attorneys doing work that could be performed by your paralegals or other support staff? By increasing the ratio of paralegals to attorneys, you can more cost-effectively manage routine, repetitive work and free up your attorneys and outside counsel to focus on more complex legal issues.

### 3. Budget, budget, budget.

To further manage your spending and provide a more realistic forecast of your spending, work with your law firms to create budgets for your matters. Some companies require budgets only for certain practice areas or for matters where the spending is over a certain dollar threshold. Budgets not only clarify spending expectations with your outside counsel, but also establish accountability. By creating budgets for your matters, you can receive an early assessment of the cost involved and work more collaboratively with your firms to understand where the budget may differ from your expectations. Budgets can also



help track the progress of your matters. You can track actual spending and milestones for each legal project to determine whether they are progressing as expected. With greater control and visibility into your projected spend, you can also provide more accurate financial reporting to your management team. And remember, budgets can be as simple as a single number!

#### **4. Evaluate outside counsel.**

According to market research, most companies spend twice as much on outside counsel as they do on their in-house lawyers. And the amount spent on outside counsel continues to rise at a higher rate than law department budgets. So, how can you make sure that you're getting the best value in the legal marketplace? The best way is to regularly evaluate your firms on the same set of criteria. Take a close look at the firms you're currently using and review them on a number of dimensions such as cost, overall performance, results, responsiveness and expertise. Some companies take this opportunity to converge the number of firms used and negotiate preferred or creative rate schedules with those remaining. For certain areas of practice, you may want to consider alternative fees with your law firms, such as flat fees, phase-based, or blended hourly rates to best align your spending to the work involved. The most effective way of determining what alternative fees should be is to understand your current spending with your firms. Leveraging alternative fees often helps strengthen partnerships with your law firms by more closely aligning the interests of both parties. Another area to explore is how work is being distributed within the firm. You may find that partners are doing work that might be more appropriate for an associate or paralegal. You can then work together with your firms to ensure that the right resources are leveraged where possible.

#### **5. Know what you're spending (and where you're spending it).**

One of the most important steps to managing your spend is to know where your money goes. As law departments become decentralized, the challenge of capturing and reporting on matter and spend information grows exponentially. Unless you have a solid process in place to help you collect and consolidate all of your legal spending, you'll be at a loss when it comes to mapping out internal and external costs. For internal costs, take into consideration the resources available, the expertise and bandwidth of your staff, trends in the types of matters you are working on, and the time spent handling certain tasks. The majority of your outside costs are likely generated by outside counsel. You'll want to be as precise as possible in figuring costs for international and domestic firms, costs by firm, and by practice area. And finally, remember to include spending with other legal vendors such as experts, translators, technical and litigation support, etc. By getting a comprehensive understanding of where and how your costs break out, you can then analyze the details to help you identify possible areas for improvement.

#### **6. Leverage technology.**

Technology can improve your efficiency by streamlining the processes for collecting, reviewing and reporting on your legal spend. For example, e-billing systems make it easy for you to capture and review your legal spending. Your law firms will submit their invoices to the system in an electronic format and the e-billing system will then check each charge for any basic errors (math, duplicate entries) and automatically compare the charges to the requirements in your billing or engagement guidelines. In systems with automated workflow, invoices are routed to the appropriate people in your department for review and approval, while the law firms have visibility into where each invoice is in the process. Your team can then quickly review the invoices and focus on those charges flagged or rejected by the system. A good e-billing systems can also help with compliance reporting, by providing a consistent, auditable review for all invoices received and capturing and storing the results. Most e-billing systems also give you budgeting functionality to automatically track actual spending against the budgets. Matter management systems

can help track all of the information and activities applicable to a particular legal matter and frequently integrate with e-billing systems. Systems that combine matter management and e-billing capabilities make it even easier for you to capture and use matter and financial data. Sophisticated and easy to use reporting features help you collect and report on the information captured. These systems enable you to access updated information on where you're spending money and quickly compare costs across firms, business units, practice areas, and more. These solutions can help you identify trends, mitigate risks, and forecast for the future.

### **7. Network with peers.**

Corporate law departments have a generous tradition of sharing the wealth when it comes to new and innovative ideas, particularly when it comes to surviving a corporate belt-tightening. So, make the most of any "free" time and take a look at some great resources that are just a "click" away:

- [www.acc.com](http://www.acc.com)
- [www.alanet.org](http://www.alanet.org)
- [www.mcca.com](http://www.mcca.com)
- [www.c2c.martindale.com](http://www.c2c.martindale.com)
- [www.lexisnexis.com/conferences](http://www.lexisnexis.com/conferences)

Share your success and you'll be someone else's hero. In turn, someone may have a brilliant idea for you!

Not every idea featured here will be perfect for you, but hopefully they will serve as food for thought and provide a glimpse into how other companies like yours are managing their spend challenges. If an idea provides the spark for other creative tactics that might work for your company, then please share them with us at [counsellink@lexisnexis.com](mailto:counsellink@lexisnexis.com). Again, remember the objectives behind managing your spend. Aligning your tactics with the objectives will help ensure success.

### About LexisNexis Examen

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