SimpleLegal

3 Key Spend Management Strategies

How to Drive Legal Spend Savings

Introduction

Legal departments, like many others, have been thrust into a new normal. Corporate counsel have emerged as key participants of crisis and risk management, and have been directing their attention to reduce the impact of Covid-19 on employees and their businesses. Yet, in addition to navigating new employment, data privacy, and supply chain issues, corporate counsel are still being asked to identify cost savings and effectively manage budget.

To help in-house teams identify immediate cost savings, this white paper will share 3 key spend management strategies, specifically how to:

1. Leverage billing guidelines effectively

2. Choose vendors based on data instead of feelings

3. Work cross functionally with your finance department

Leverage Billing Guidelines Effectively

When vendor data isn't readily accessible, you're more likely to choose vendors based on a gut feeling. These kinds of qualitative vendor decisions are based on anecdotal evidence. You're working off of what you happen to remember about each vendor's work.

Answer the Who, Why, What, When, and How

Who is affected by the guidelines? When you know who will be affected, you can make staffing decisions and determine who can and should work on specific matters.

For instance, you can establish how many attorneys will work on each matter and which timekeepers will be allowed to bill for work. Will you accept any attorney or only senior counsel? Will you allow interns and paralegals to bill for work, or only attorneys?

Billing guidelines can also be used to establish your main point of contact so you can avoid communication gaps that often result from discussing matters with too many attorneys at once.

Why do the guidelines need to exist? The main purpose of billing guidelines is to define the expectations for both parties. Think of billing guidelines as the outline for how your relationship will work. By determining how you'll communicate (email, calls, etc.) and how often (daily, weekly, etc.), you can help avoid frustration before any work begins.

What do the guidelines aim to achieve? Establishing the scope of your billing guidelines ensures that both parties know what the guidelines will govern:

- Acceptable invoice formats, like LEDES, PDF, etc.

- Timeline for invoicing: for example, invoices received more than 60 days after work completion will not be paid

- Staffing issues, like whether intern or paralegal work is billable

- Accepted expenses: maybe air travel is accepted, but only economy fare.

- Clearly describing what you will and will not accept helps you avoid billing disputes, staffing issues, and work disruptions.

When do the guidelines take effect? Whether you are sending guidelines for the first time or are updating previous agreements, it's important to note the date when the guidelines will go into effect. Be sure to include a signature page to confirm receipt. Doing so ensures that you can enforce all aspects of the guidelines later, even if your vendors chose to skim them.

How will the guidelines be enforced? This is where your legal tech comes into play. Without a way to enforce guidelines, they can't do you much good. You can leverage e-billing and spend management software to automatically reject, adjust, and flag billing guideline violations.

Automatic enforcement can improve your legal ops productivity by taking care of several administrative tasks for you. Use automated guideline enforcement to:

- Reject invoices submitted more than 60 days after completed work

- Adjust invoices to include only approved UTBMS task codes

- Adjust invoices to cap time billed against specific UTBMS task codes

- Flag UTBMS codes that are nearing their allotted billable hours

- Reject expenses linked to unapproved expense codes

When you work with a large number of vendors, guideline violations can slip through the cracks. Spend management software ensures that every invoice is in line with the agreed-upon terms.

Set Limits and Warnings for Specific UTBMS Codes

With spend management software, you can drill down even further with billing guidelines by setting limits and warnings for certain UTBMS codes.

Start by documenting which UTBMS codes will be accepted. If you will reimburse expenses for out-of-town travel but not local travel, for instance, you can set a rule to allow invoices with E110 but reject invoices with E109.

For activity codes, you can set time limits to prevent overbilling for certain activities. While you may keep A109 (Appear for/attend) open-ended, you might limit billable hours associated with A107 (Communicate with other outside counsel). Doing so allows you to create more accurate budget forecasts and automatically flag codes that are close to their billable limits.

Example Text

Limit billing to the following codes:

Type	Code	Description
L100 - Case Assessment, Development, Administration		
	L110	Fact Investigation / Development
	L120	Analysis / Strategy
L200 - Pre-Trial Pleadings and Motions		
	L210	Pleadings
	L220	Preliminary Injunctions / Provision Remedies

Choose Vendors Based on Data Instead of Feelings

When vendor data isn't readily accessible, you're more likely to choose vendors based on a gut feeling. These kinds of qualitative vendor decisions are based on anecdotal evidence. You're working off of what you happen to remember about each vendor's work.

To make data-driven decisions about the vendors you use for IP management, you need quantitative evaluations. Spend management software can generate reports that allow you to compare vendors side-by-side.

Vendor management reports also allow you to manage your vendor relationships more efficiently by viewing key metrics at a glance. By categorizing work by UTBMS code, you can quickly review how much time vendors are spending on document management, patentability investigations, infringement investigations, etc.

Vendor Management

Knowing that each vendor offers different skills at different hourly rates, you need to be able to compare vendors based on several metrics to make educated vendor management decisions.

Track timekeeper rates to determine which law firms are worth the cost. If you notice a particular firm charges much higher rates than others, take a step back to consider whether another firm could perform the same work at a lower price.

Other metrics to pay close attention to include:

- Practice area (matter group) activity by vendor

- Task code cost comparison by vendor

- Rate comparison by vendor

To better quantify your data, categorize spend by UTBMS codes. This allows you to see costs associated with vendors, product lines, geographic location, and other variables. This way, you can see exactly where you are investing your money — whether it be on protecting patents you already have or investing in new product lines and are armed with the knowledge you need to make educated decisions about speeding up or slowing down specific types of work.

E-billing provides you with the data you need to answer questions such as:

- Does another vendor do the same type of work for less?

- Does a certain vendor require a lot of rework and end up costing you more?

- Are vendors adhering to fixed-fee arrangements?

- How long does it take each vendor to issue an invoice?
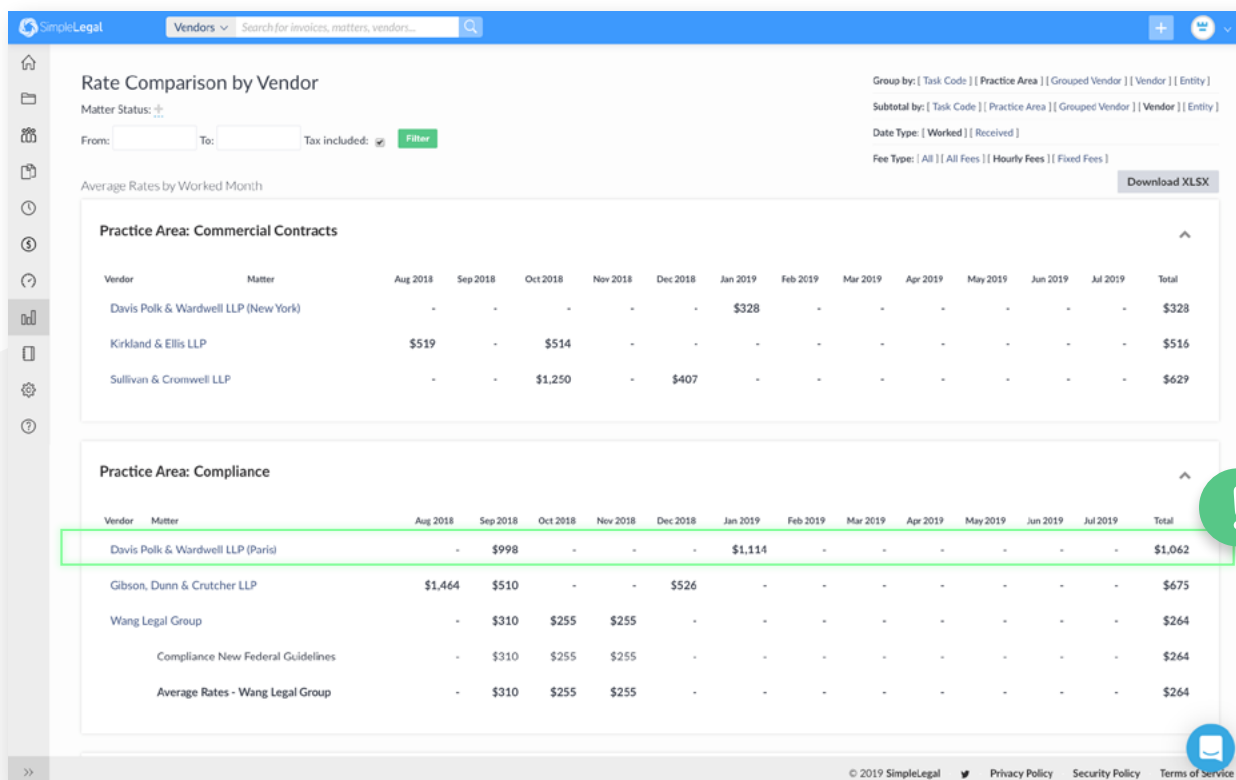
Vendor management legal analytics also gives you a better look at which law firms are the most reliable and effective. By running reports that show unbilled estimates versus actuals, you can get a better idea of how well certain firms estimate the cost of the work they will provide.

Not only does this allow you to flag overbilling, it also gives you the data you need to discuss performance and efficiency with outside counsel. Identifying firms that frequently go over budget makes it easier to negotiate rates or make the decision to move work to other law firms.

Set Realistic Performance Targets

When you isolate data by time period and practice area, you can take the guesswork out of budget decisions and performance targets and set realistic expectations for different projects. Instead of assuming a commercial matter will take 800-900 hours, you can leverage past data to establish a more precise budget and timeline. More accurate budget and labor forecasts help companies save money and continue to grow.

Spend by practice area analytics helps legal departments:

Reduce risk by determining which practice areas have high legal spend	**Identify savings opportunities** by shifting work in-house when hiring outside counsel is not cost-effective	**Set realistic budgets and timelines** for future matters based on past data for each practice area

Set and Monitor Vendor Management Goals

What does a successful outside counsel relationship look like to you? Defining the goals you want to reach through vendor management is key to achieving that ideal relationship.

Goals might include:

- Switch X number of vendors to **alternative fee agreements (AFAs)** over the next year.

- Complete X number of contracts annually.

- **Reduce gaps in estimates compared to actuals** by X percent.

Goals and KPIs are a great way to prove your value and efficiency to the finance department. The more progress you can show, the easier it will be to get additional budget approvals.

Let's say you need to increase outside counsel spending by 20%. Instead of just requesting a bigger budget, you can go to finance with a clear plan:

> *We need to increase outside counsel spending by 20% but will set a goal of establishing AFAs with 50% of the new vendors. Over the past year, switching to AFAs reduced outside legal spend by 35%*

As you grow, how and where you spend your budget will change. Watching for trends in spending allows you to keep a pulse on your internal versus external costs and make adjustments as needed.

Start by setting a target for in-house and outside counsel spend, such as 50/50 or 80/20, then monitor how close you stick to it. Be sure to drill down by matter type, as you may discover that while intellectual property disputes, for example, benefit from a 70/30 internal/external split, other matters benefit more from a 60/40 split.

Make More Informed Hiring Decisions

Determining when to use in-house talent or outside counsel is essentially a "buy versus rent" decision. For each matter, you have to decide if it makes more sense to buy (hire internally) or rent (pay outside counsel) to perform the work. Legal analytics can help you identify savings opportunities, flag productivity issues, and more.

Create a Vendor Scorecard

Quickly view the vendor's overall score as well as other pertinent information about the relationship

Select other vendors to compare against and see how they stack up to assist with vendor selection

Attorneys can leave specific comments to reference in the future

Filter survey results by date and/or practice area and drill in for specific insights

An easy-to-understand visual representation of survey responses

With vendor scorecards, you can quickly review vendor performance. This allows you to have more honest conversations with your vendors and make more data-driven decisions about which vendors to work with in the future.

One way to do this is to send vendor surveys to gather feedback from in-house attorneys about the vendors they work with. Once you create surveys, you can determine how often you'd like to check in on vendor performance and schedule the surveys to be sent out automatically.

Surveys measure performance in areas such as timeliness, accuracy in cost estimates, and work quality — all of which can then be turned into a vendor scorecard.

Scorecards give you the ability to compare vendors side-by-side and leverage those comparisons to negotiate better vendor relationships.

Let's say you'd like to negotiate more Alternative Fee Agreements (AFAs). Scorecards show that Vendor A and Vendor B have the same score for overall satisfaction. Vendor B has a slower turnaround time, but their estimates are more accurate. Vendor A works quickly, but consistently underestimates costs.

You can use the data to negotiate an AFA with Vendor A:

> *We can get this same work done by a different vendor and stay closer to budget. If you are willing to agree to an AFA, we can increase your matter volume by 20%*

Work Cross-Functionally With Your Finance Department

Finance can be your biggest ally, and making sure you're on the same page as we navigate a new normal can be instrumental in ensuring your spend management practices are successful.

Reduce and Efficiently Manage Spend

With spend management being a key area of focus for legal operations professionals, cost savings are often seen as low-hanging fruit where the quickest results can be achieved. Implementing billing guidelines, opening lines of communication with law firms and relationship partners, as well as working closely with finance are all ways to control spend and stick to to departmental budgets.

Specifically, legal operations can work with finance to:

- Prepare month and year-end budgets

- Report on the status of finances to stakeholders

- Provide reliable accrual data for more predictability into spend

- Ensure compliance with financial requirements and SOX

One way for legal operations to enhance collaboration between their department and finance is to connect the technologies that each department uses, facilitating faster payment of invoices, efficient information sharing, increased spend transparency, and fewer manual processes and errors.

For example, without an accruals process, finance cannot properly report on legal spend. Your legal department needs to work with the finance department to identify pain points so that the two can develop a plan for better spend tracking and reporting. By integrating your legal tech with the finance department's system, you can ensure that everyone has up-to-date information at all times.

Consider the path of a single invoice. If your department reaches out to vendors via email and relies on manual invoice processing, that invoice can get lost in someone's inbox, buried at the bottom of their to-do list, or forgotten altogether. Meanwhile, finance has no way of knowing what amounts are owed to whom, what those payments are for, or when those payments are due. As a result, at the end of each quarter, finance will need to make massive adjustments for the legal department's spend.

Now, if that process was centralized into a legal spend management system, all of that back-and-forth between your team and outside counsel would be easily traced. The software would identify not just the invoice amount but other important details such as the associated timekeeper, matter, and task codes as well. The accruals process could be automated and integrated with the finance

department system. This would allow finance to keep an eye on spend, make more accurate budget estimates, and improve response rate to requests for unbilled estimates.

When you connect your technologies to meet your specific needs, you create something that is both valuable in the moment and highly scalable. Not only does it help your legal department overcome a disjointed system that leaves gaps in communication and reporting, but it also gives you the ability to move forward as a more cohesive, streamlined operation.

Connecting your legal tech with finance improves operations for both departments.

Conclusion

While the current economic environment has created a great deal of uncertaining, implementing the three strategies outlined in this guide gives in-house teams and legal ops professionals end-to-end control over their spend, matter, and vendor management processes. With that control comes visibility into the entire legal department. In addition to facilitating data-driven decisions for everything from budget allocation to resource management, it helps legal teams create a strong foundation for both short and long term cost savings.

About SimpleLegal

SimpleLegal combines e-Billing and Spend Management, Matter Management, Vendor Management, and Legal Analytics in one comprehensive platform to help in-house legal teams better track and manage their legal spend and matters.

We believe that legal technology should be modern and easy to use, require little to no training, and have the flexibility to customize to the unique needs of each organization. We partner with legal departments to drive legal operation efficiencies, gain transparency into their legal spend, and realize significant time and cost savings.