



The Basics of Legal Vendor Management

5 Steps for In-House Teams Starting a Vendor Management Program

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Introduction

Historically the relationship between in-house legal departments and their vendors was based on a handshake agreement. In-house departments would outsource to a partner or law firm that the department had always worked with, with little investigation of whether or not the firm was the right fit for the project at hand. When choosing a vendor, it wasn't about qualifications, cost, or value - it was about connections.

However, after the financial crisis of 2008 there was renewed focus on cost-savings as companies of all sizes were struggling to do more with less. With legal departments under pressure to be both efficient and cost-effective, this antiquated model simply didn't work anymore. Although trust is a key factor when curating a team – and why handshake agreements were the norm for so long – an evolving legal landscape is forcing companies to adopt a data-driven approach. They're also pivoting from familiarity to diversity, understanding that there is more to an effective legal (and business) partner than their hourly rate.

Law firm selection is an incredibly important factor in a company's success. Legal teams need a way to measure outside counsel performance, ensuring they aren't only selecting the most cost-effective firm, but also partnering with those that provide the most value to their business.

In this white paper, GCs, in-house counsel, and legal operations professionals will learn:

1. How to evaluate their current legal department-law firm dynamic
2. Metrics for evaluating outside counsel
3. Strategies for strengthening the relationship with outside counsel



An evolving legal landscape is forcing companies to adopt a data-driven approach.

The Value-Over-Cost Transition

Despite working within budget constraints, legal departments aren't looking to nickel and dime their vendors. In-house legal departments are putting more emphasis on value and are willing to pay for high-quality work. Part of the value-over-cost transition is increased focus on vendor relationships. Legal departments are looking for outside vendors they can build a relationship and partner with for the long-term. Expertise, specialization, and perceived value are important factors in the law firm-vendor relationship.

In many cases, outside counsel becomes a strategic partner, particularly if in-house teams lack adequate knowledge in complex or specialized areas of the law. Not only can vendors help in-house teams mitigate risk by bringing specialized insight into things like security or high-pressure litigation, vendor management also gives in-house legal teams the opportunity to evaluate benchmark metrics and better understand their legal spend.

The Rise of Legal Operations and Impact on Vendor Selection and Management

According to the Association of Corporate Counsel, nearly 50 percent of the in-house departments surveyed stated that at least one person in the department was assigned to legal operations – a remarkable increase from the 20 percent reported the previous year.

While the responsibilities of legal operations professionals vary by department and organization, initial focus is often placed on:

1. How to reduce spend with outside law firms and vendors
2. Technologies and how to optimize processes to drive efficiencies, productivity, and ROI
3. Ways to support the GC as they have less time to focus on departmental and operational performance in order to guide and advise the executive team

The growth of legal operations, coupled with the role's emphasis on reducing spend, has made vendor management a top priority of all sizes.

5 Steps for Starting a Vendor Management Program

Step 1 Identify Your Departmental and Company Goals

Determine what your company's key initiatives are, how the legal department will help achieve those, and whether outside counsel will play a role. There are many ways your team can approach this, so we wanted to share a few to help get started:

Reflect on the Prior Year

What worked for the legal department last year and what didn't? Did you have goals that you didn't meet? What were your blockers and what can you do to make sure that the same issues don't occur this year? An exercise as simple as looking at the prior year can help you build a baseline for what you'd like to achieve this year.

From there, you can add items that you foresee taking place in the year ahead, such as complex litigation matters, or the need for additional support to assist with things like e-discovery, intellectual property, or patents.

Talk to Everyone

From the business to your team, having open and honest conversations with a wide range of people during the early stages of goal setting is going to ensure your team is working towards the right targets.

CEO, executive team, and board of directors - It's important that the goals of your legal department align with those of the business, and speaking with your CEO, the executive team, and even the board about what they are focusing on and concerned about for the coming year has a big role in ensuring everyone is on the same page.

Legal department - There's no one better than your own internal team to help you determine what's working, what's not, and specific legal issues facing your department. Talk to all groups, from your paralegals and in-house attorneys to administrative staff for a comprehensive view.

Other departments - Legal is the heart of the organization and often requires support from all departments to reach their goals. Make sure to include other departments such as Human Resources, Sales, Finance, IT, and Investor Relations, to name a few, in your conversations so both teams have an understanding of the goals the other is trying to accomplish.

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“Don't shirk the opportunity and think of goal setting as some type of pain-in-the-neck HR exercise you have to muddle through. Embrace the process as the more thought and effort you put into goal setting, the bigger the payoff. And, there will be a payoff for you and your team if done properly and with some enthusiasm.”

Sterling Miller
Chief Compliance
Officer, Marketo
([source](#))

Legal departments are expected to keep pace with an increasing number of challenges, including mitigating risks around data and cyber security, keeping up with regulatory and compliance issues, and educating both internal and global teams on operational procedures. And, of course, balancing those challenges with optimizing department performance and achieving specific goals while sticking to budget.

When you're evaluating your department ask yourself the following:

- Do you have adequate staff to meet company objectives?
- Does your staff have the expertise to complete the work on budget?
- And on deadline?

If you answered no to any of those, determine where you need the help. For instance, are you looking to reduce the time your attorneys spend on administrative tasks? Or maybe you need matter-specific expertise for an upcoming project.

Your Team is Your Most Valuable Asset

Look at your current team and see if there are opportunities for any member to upgrade their existing skills to provide support. This is especially common for departments looking to introduce a formal legal operations program. Often times, a paralegal or administrative team member is already doing a lot of the responsibilities of a legal operations manager and there may be opportunity to help them develop their skill set to help the entire department be more efficient and productive.

Complete Work In-House or Outsource

Once you can identify what kind of help you need, you are in a good position to decide whether work needs to be completed in-house or if outside counsel is best for the job. We can't tell you what the right choice is, but we can highlight some pros and cons of outsourcing work.

PROS

- + Access specialized legal talent
- + More flexibility and easier scalability
- + Quicker turnaround time
- + More bandwidth for in-house counsel

CONS

- Increased potential for security breaches
- Confidentiality concerns
- Fragmented communication
- Less control

Once you have a good handle on the key goals of your company, high-priority projects for your department, and available resources to support such initiatives, it's time to evaluate your current vendor relationships.

In order to truly understand how your vendors are meeting your needs, you need to have visibility into the work they're completing. This requires looking at your top ten or fifteen vendors – the firms that complete the most projects, attend to the most matters, and are a bulk of your outside spend. A few areas to dive deeper into include:

- How quickly your top firms are completing the work
- Whether you are satisfied with the work being done
- Who are the top timekeepers and their hourly rates

If you're unsure of how to obtain this information, you're not alone! Legal teams of all sizes have faced the challenge of opaque invoices, data buried in spreadsheets, or knowledge captured in team members' minds – all of which make scoring vendor performance difficult, time consuming, and frustrating.

This is where a robust legal operations management platform can help. A platform with e-Billing capabilities is the perfect foundational tool to help you and your team understand where your spend is allocated, determine which firms are working on what and if the work is being done effectively, and provide additional insight into things like staff productivity. Reviewing the data for trends and outliers can help you shape your expectations for your law firms moving forward.

Metrics to Score Your Vendors

Put together a vendor scorecard that includes the following

- Overall performance
- Total cost of services
- Spend by matter
- Spend by firm
- Estimates compared to actuals
- Spend compared to budget
- Average hourly rate by firm
- Discounts on rates by firm
- Alternative or fixed fee arrangements
- Matters by firm
- Matters resolved successfully
- Time to process invoices
- Level of satisfaction

Additional Areas to Evaluate Vendor Performance

Billing Guidelines

Billing guidelines, also referred to as outside counsel guidelines, at their most basic level, create a binding agreement between a legal department and a law firm, ensuring payment in exchange for legal work. Today's modern legal departments – driven by efficiency and productivity – use billing guidelines as the primary way to communicate their expectations for work performed.

When evaluating your current vendors, consider:

- ☐ Does the law firm adhere to your billing guidelines?
- ☐ If not, how many violations or overbilling incidences occur on a monthly basis?
- ☐ What is done to reverse billing issues?

Billing guidelines can include a wide range of requirements and expectations, but two that stand out – which can also help with vendor performance evaluations – are security and diversity which we'll review briefly in the following sections.

If you do not have billing guidelines in place, or think it's time to update your document to align with your new goals, download your copy of our white paper: [Legal Billing Guidelines Best Practices](#).



Security

It's easy to focus on internal security, but some, if not all, of your vendors likely handle highly confidential information, and the security of that information is your responsibility. Your organization expects you to have risk mitigation measures in place to protect their information. Your vendors should also exercise high security standards to ensure your clients' sensitive information stays protected.

Many legal teams choose to write out their security expectations in their billing guidelines, giving them another avenue to ensure alignment between legal and law firms.

Diversity

A rising topic in the legal community is diversity. Many in-house teams are beginning to use diversity as a benchmark when evaluating both in-house teams and outside counsel. When it comes to professions that are predominantly white, law takes the cake at a staggering 88 percent, according to the [American Bar Association](#). And although the number of women in a general counsel role is increasing, according to a survey by the [Minority Corporate Counsel Association](#), only 21 percent occupy the top spot at Fortune 500 companies.

The [Boston Consulting Group \(BCG\)](#) published a diversity report in 2015 that found diverse companies outperformed homogeneous ones. According to BCG, racial diversity correlated with a revenue gain of 9 percent. Diverse teams also tend to be more collaborative and display greater team commitment. If your outside counsel is lacking diversity, look for opportunities to use more diverse firms. Doing so can only be a boon to your legal department.

What About Tracking Diversity Efforts?

Similar to how a legal operations management platform allows legal teams to collect data to better understand spend, modern solutions like SimpleLegal can simultaneously support a diversity program by tracking things such as gender, race / ethnicity, and veteran status. SimpleLegal customers can require their law firms to submit negotiated timekeeper rates as well as diversity criteria before invoices can be approved, ensuring each project is staffed with a diverse team.

Step 4 Determine How to Measure Success

Once you've done an audit of your internal team, vendors, and made sure departmental and business goals align, it's time to think about how to measure success. Every team will take a different approach, but one thing needs to be the same for all is that each goal will have a level of measurement associated with it. Here are a few examples:

- Reduce spend by X percent
- Reduce time to pay invoices by X percent
- Increase response time to vendors by X amount of time
- Complete X number of contracts over the year
- Complete audit of X process by X date

Having a level of measurement associated with your goal will make it easy to understand your successes and failures, and determine how to course correct for the future. Keep in mind that goals can be short-term or smaller, coming together to positively impact overall productivity.

For a vendor management program to be successful, a team leader should be assigned to manage the coordination and process, a responsibility that's being headed more and more by dedicated legal operations professionals.

Review Your Goals with Your Team

The only way to achieve your goals is to make sure your entire team is aware of them! This starts with your internal legal team – from your administrative staff to your attorneys and legal ops managers. Going over each goal and its importance is another great way for each member of the team to shape their own KPIs and get a better understanding of what they need to do to contribute to the greater goal at hand.

Stakeholders across multiple functional areas of your organization should also be included, such as business unit leaders, senior leadership, and finance and accounting. The most important thing you can do is establish a strong communication schedule for communicating with the business to stay on track and course correct when necessary.

The Highly Valued Finance Business Partner

Finance departments ensure SOX compliance and are particularly important in global companies that must meet stringent financial compliance requirements around the world. Beyond compliance, finance is an invaluable asset for legal departments. They provide insight into business processes to help the legal department better manage the overall budget.

Ask yourself if your finance department understands the goals you have for outside counsel and why you request work from them. If finance doesn't understand the rationale behind outsourcing legal work, you'll likely run into issues when it comes to budgeting for it.

One of the key reasons to keep an open relationship with finance is to make sure outside firms are being paid correctly and not overbilling the company. Knowing what outside counsel is billing is also an important metric: how does it compare to the estimate, the rates of other firms, and is the amount worth the work being done?

Establish a Communication Lead & Schedule

If you plan to utilize outside counsel expertise – and you want work completed effectively and efficiently – establish a process for communicating with vendors. The client-vendor relationship is no longer about one side getting the better deal; instead, the adversarial relationship has been replaced by a partnership where open two-way communication creates an environment in which both your legal department and your vendors can focus on project objectives and new opportunities.

Establish clear, effective, and streamlined communications by doing the following with each vendor:

- Clarify and confirm expectations on both sides
- Check in regularly
- Establish defined processes for project updates
- Conduct routine evaluations and solicit feedback

Check-In Regularly

The work your vendor produces for you is a direct reflection of your communication style. If you communicate your goals clearly and regularly, your vendor will know exactly what is expected of them.

But keep in mind that goals will change over the course of the year, and that's to be expected. Whether it's a new deal or litigation that arises, having a regular check-in with the business to understand what their expectations are, as well as your team to communicate these new directives, will be helpful to reprioritize key.

A similar check-in with each of your law firms to explain the shift in priorities will ensure that your valued vendors are not only great legal partners, but exceptional business partners and can help your team meet its goals.

The Right Technology Strengthens Relationships with Outside Counsel

When it comes to tracking your goals and enforcing your vendors to comply, legal technology has risen to the occasion. Legal Operations Management Platforms like SimpleLegal provide the ability to collect a wealth of data to inform legal teams of outside counsel performance, while also helping to:

- Enforce complex billing guidelines and alternative fee arrangements
- Flag inappropriate invoice charges immediately, creating an instant feedback loop
- Score the diversity of outside counsel
- Report on vendors, timekeepers, business units, and more

How do you know if you're ready for a Legal Operations Management Platform? [Download our 10-point questionnaire](#) to see how your department stacks up.



Conclusion

Legal departments are under continuous pressure to add value to their companies by doing more with less. To meet this demand, legal departments are increasingly relying on corporate counsel and legal operations teams to find better ways to manage resources, improve productivity, and effect positive change within the organization.

In turn, corporate counsel can achieve these goals by leveraging outside counsel and using KPIs to measure and improve their performance. With the right combination, in-house counsel is freed up for more important tasks and outside counsel becomes a strategic partner, ultimately maximizing the efficacy and efficiency of the entire legal department.

About SimpleLegal

SimpleLegal provides a legal operations platform that centralizes all legal matters, vendors, and spend so that we are the single source of truth for running a corporate legal department. Our software allows legal operations to make better decisions and more efficiently manage the entire legal department by fitting to the organizations business processes.

To learn more about SimpleLegal, email sales@simplelegal.com or [schedule a demo](#) to see the platform in action.