

'CLIENTS ARE REVIEWING LEGAL SPEND AND CUTTING THE NUMBER OF FIRMS THEY WORK WITH, LAWYERS MUST REACT'

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A relationship-only approach is increasingly uncommon among clients and is being replaced by a

professional, business-driven method of sourcing legal services, says Silvia Hodges Silverstein

Many major international companies have a department dedicated to sourcing legal services. They bring in experts trained in data analysis and sourcing technology to help with spend management, carefully reducing the number of firms they instruct, ensuring billing guidelines are established and followed. Requests for proposal (RFPs) and intensive industry benchmarking have become accepted tools to support the legal department.

Clients want to buy better, buy smarter, manage to budget and have better outcomes. It is an industry mantra. The objective is to control costs, ensure quality and drive efficiency. Procurement's expertise in getting the best value for the company, professionally managing the sourcing process and finding the right providers for the right price at the right time, makes its involvement a compelling solution for top management. Many law firms have responded, setting up organisations skilled in negotiation, responding to RFPs, and knowing their internal economics. Winning firms are gaining share, lowering cost to serve, and better controlling their processes.

The Buying Legal Council's 2017 Legal Procurement Survey – conducted in partnership with Bloomberg Law – shows RFPs and alternative fee arrangements (AFAs) are popular among legal procurement professionals. Do not expect them to go away soon. Here are the five most effective activities legal procurement professionals use to get value from legal services providers:

1. Using RFPs
2. Use of alternative fee arrangements (AFAs) or project-based budgets
3. Working with a preferred provider list of vendors
4. Use of alternatives to traditional law firms
5. Using billing guidelines

RFPs were rated most highly and were used by 71.9 per cent of respondents. A total of 19.3 per cent of those who are not currently using RFPs are planning to use them in future. Legal procurement professionals see AFAs and project-based budgets as effective tools to drive value received from legal services providers, though currently only 63.8 per cent use them. A total of 25.9 per cent are planning to use them in future, and only 10.3 per cent do not have the intention. There have been discussions in the industry about the future of AFAs and whether clients want them – this suggests we have gone beyond the tipping point. AFAs should no longer be called 'alternative' fee arrangements as they are becoming mainstream.

Meanwhile, panels of preferred providers are seen as effective and are commonly used. A total of 82.5 per cent of respondents said they worked with a preferred provider list of vendors. The remaining 17.5 per cent are planning to use a panel. No respondents said they had no plan to use a panel. A continually developing area in legal procurement is the use of alternative providers instead of traditional law firms. Legal procurement professionals see it as an effective way to drive value. Currently, 63.8 per cent of legal procurement professionals use them and 25.9 per cent are planning to use them.

Invoice audits

Billing guidelines are seen as very positive. Most clients (80.7 per cent in our survey) use billing guidelines for legal services. A total of 15.8 per cent are planning to use them and only 3.5 per cent are not planning to use them. With the use of billing guidelines comes the next value-driving activity, conducting invoice audits. Currently only 50 per cent of legal procurement professionals conduct them, but 33.9 per cent are planning to conduct them in future. Using invoice audits to enforce the use of billing guidelines will get a lot more attention in future.

Almost everyone (91.2 per cent) negotiates discounted hourly rates. However, opinions appear to be divided about reverse/e-auctions. Currently, 14.5 per cent use them and 25.5 per cent plan to use them in future. However, 60 per cent say they have no plan to use them.

Legal procurement continues to increase its reach and influence: the majority of legal spend is under review. A relationship-only business approach is increasingly uncommon. It is replaced by a

professional, business-driven approach to sourcing. For firms, the `noose' is getting tighter; the pressure is on more than ever. Clients are reducing the number of firms they work with. React now or watch competitors win panel positions with clients you took for granted.