

4 Essential Components for a Successful Legal Management Spend Program.

Here are must-have components to systematize legal spend management efforts and go from ad hoc accounting to data analytics and predictive modeling.

LAW DEPARTMENTS are challenged to manage, mitigate and control legal spend.

The focus of these efforts have largely rested on e-billing platforms with business intelligence features that can, for example, “flag” non-compliant billing and provide some level of analytics and reporting. But the effectiveness is far from “plug and play” and the results legal departments hope for will not happen through software alone.

While technology is requisite as an enabler for managing legal invoices, effective control rests on the creation of robust billing guidelines and accurate data collection. In other words, there is a lot of heavy lifting required. Without it, you will likely miss significant areas of potential improvement in cost mitigation.

Factors like the development of robust billing guidelines, the strict use of UTBMS codes, and the subsequent review of every line item of every invoice for conformance to your billing guidelines are prerequisite. It is a daunting task without which your legal spend mitigation efforts will yield suboptimal results.

This article delineates the must-have components to systematize legal spend management efforts and go from *ad*

hoc accounting to data analytics and predictive modeling. It is not an overstatement to suggest that absent good execution of any one of these critical components, the results may not provide the value you may be looking for.

The four essential components for a successful legal management spend are:

1. formal billing guidelines and policies
2. comprehensive invoice review
3. accurate data collection
4. e-billing platform

1. Billing Guidelines and Policies

Most companies utilize billing guidelines to define a firm’s rate structure, UTBMS code usage (essential for accurate data collection), task billing expectations such as block billing, minimum billing increments, and administrative task definitions as well as expense billing expectations among other things.

While there are of course any number of options for choosing a firm and negotiating rates, the focus here is not on the rates per se, but rather, the use of the guidelines for billing consistency, compliance with the agreed to billing standards, and using this vehicle to account for, and better rationalize and mitigate legal spend. Without established billing guidelines and policies concerning adherence to them (and managing

exceptions), legal spend management remains ad hoc, inconsistent, and forecloses the ability to perform meaningful data analytics.

2. Comprehensive Invoice Review

With rate structure and billing guidelines defined and provided upon firm and vendor retention it is imperative to review all the submitted invoices pursuant to those guidelines. While nuanced, and requiring a sound understanding of legal work, it can be drudgery (an ongoing slog really), but absolutely essential.

Unfortunately, according to the Blickstein Group Ninth Annual Law Department Operations Survey respondents, legal department operation staff already spends more time (19% of their time) on administrative tasks than any other activity. Not surprisingly then, while many companies have procedural audit expectations, legal bills typically receive only a cursory review at best. For this reason alone it is well worth considering outsourcing this activity. Most organizations will likely benefit from an external non-biased compliance review of billing submitted by your firms and no doubt why GOOGLE INC and other companies have chosen this specific tack (LegalTech News, Erin E. Harrison; June, 9 2016).

The value of comprehensive invoice review audit for compliance with billing guidelines should not be underestimated. The savings (or perhaps

more accurately, the cost avoidance) achieved by correcting faulty billing can be as much as 20%. It is important to note here that this is not adversarial to outside counsel, and in no way implies deliberate behaviors. Billing mistakes are frequent because they are easy to make: particularly as your firms have many clients, each with their own negotiated rates and each with myriad different billing rules which can be quite difficult to manage.

While noncompliance with some billing guidelines such as disallowance of block billing or the mandated use of UTBMS codes may not equate to “overbilling,” they do impede the ability to accurately collect and analyze billing data and other key performance indicators (“KPIs”) which are the most important and powerful tools in a legal spend management program.

3. Accurate Data Collection Enabling Analysis

The ability to utilize the data from every invoice to create costing analyses through historical data utilization is the ultimate benefit of a legal spend management program (and it is dependent on the establishment and adherence to billing guidelines and bill review auditing). For example, the analysis of historical data can enable you to understand the probability (or likelihood) of a firm meeting budget expectations.

It can be used to benchmark legal service providers’ performance based on such factors as outcomes, billing variances, budget variances, expense ratios, adherence to project plans and any other dashboard or “score card” metrics your department finds valuable. It will also likely prove useful when communicating issues regarding legal spend to non-lawyers such as CEOs, CFOs, and other business stakeholders

However, these benefits can only be realized with the support of meaningful data collection. This relies completely on the accuracy and consistency

of the data. For this reason the strict adherence to the use of UTBMS billing codes is essential and why block billing is frequently disallowed.

Absent these strictures the validity of the data underpinning your analysis will be suspect and the results inaccurate, or worse, misleading. Data analytic techniques depend on this. Without consistent and accurate data you cannot accurately assess legal spend by firm, matter type, matter phase, or develop other useful insights that help to rationalize spend or enable predictive modeling that can support not only budgeting but legal strategy in terms of cost/benefit calculus.

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These three components (robust billing guidelines and policies, comprehensive bill review, and the consequent collection of validated data) are the real must-haves for any bona fide legal spend management program that can deploy advanced statistical analytics for competitive advantage.

4. E-Billing Platform

Technically, the values espoused above can be achieved without an e-billing platform, but it is doubtful anyone would seriously advocate doing so. The efficacy of such an endeavor would be

highly suspect. Billing platforms, as noted at the outset, are the “enabler” to a legal spend management program. But, without the three other components the capabilities of your e-billing platform will be handicapped.

While e-Billing platforms are indeed powerful, the nuances of legal practice do not always fit neatly into automated flagging routines or business intelligence engines. Inaccurate use of UTBMS codes will weaken the analytical capabilities. Furthermore, billing guidelines that include task-based rates and time limits (which have become more prevalent) really require human judgement. How long should that depo prep take?

Ultimately, the oft repeated maxim of “people, process, and technology” holds. Absent any of these components your legal spend management program is hamstrung. The process (robust billing guidelines, policy and enforcement), the people (review of all invoices for compliance with guidelines and data analyses) and technology (e-billing platform for efficient billing, data aggregation, mining and reporting) must all be present to achieve the goals of legal spend management for legal departments and the C-suites.

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