

How to Buy Legal Services

Insights for procurement professionals

Common challenges with managing the legal category

- Procurement does not always understand the embedded relationships between in-house lawyers and their law firms
- It is not just about hourly rates and reducing the hourly rates but should be a focus on value-based pricing and how the in-house legal team and law firm can collaborate to deliver value to the business
- A mindset of a lawyer is that budgets for matters are not necessary, highlighting the need for processes and frameworks to ensure good practice
- Law firms, in general, are not good at estimating time and costs, and not good at keeping clients up to date as budgets change - ideally need a framework in place to address this
- Growing recognition that the legal function needs to act as business, with more rigour and process to ensure value delivery and performance

Where to start when trying to understand legal spend

- Extract and review raw data and analyse historical spend - work types, law firms, practice areas
- Consolidate and optimise law firm footprint using qualitative and quantitative data
- Focus on right fit for type of work
- Identify areas for savings and efficiency
- Consider current and future types of legal work and in-sourcing vs out-sourcing

How to get oversight and control of legal spend (and generate savings)

- Identify and formalise an agreed panel of law firms for consistency, focus and in-depth knowledge
- The right mix of law firms e.g., full service, boutique, alternative legal services providers, will depend on organisation drivers, type of work, size of spend, geography, etc
- All external legal spend to be approved and sourced through the legal function
- Need of legal spend management platforms to capture and control processes
- Need of reporting and financial data which is a single source of truth - one set of data, not a combination of data collected from internal systems and law firms' systems

Focus on getting value from the legal panel once it is in place

- Common for a lot of work to go into setting up the legal panel, but then it is left and not operationalised or managed to ensure value delivery and return on investment
- Set up a rigorous process to operationalise what has been agreed i.e., principles of engagement, billing guidelines and legal spend management platforms
- Have a legal operations-focused person responsible for managing the law firm relationship with a framework and process around how it can be managed to ensure value delivery and costs savings
- Ensure ongoing reporting and management of the law firm performance, with a focus on building strategic relationships and alignment with organisation needs and drivers

Matter-based RFPs and Alternative Fee Arrangements (AFAs)

- Matter-based RFPs are generally used for matters >\$10,000, although some organisations can benefit from lower thresholds. A selection of firms on the panel are asked to conduct conflict checks and respond with a scope of work and budget including disbursements and any other foreseeable costs
- Attractive option to create competitive tension and common to generate up to 35% saving
- Don't focus on negotiating discounted hourly rate, but on a fee for an agreed scope of work that delivers good outcomes, efficiencies, and value
- AFAs that are common in legal are fee estimates, fixed fees, capped fees, or even a retainer
- Sophisticated AFAs for more complex, high value matters, can include an incentive structure that makes it financially attractive for a law firm to be efficient and successful
- Volume discounts are good for when consolidating firms - sliding scale based on amount of work

Relationships and change management - working with legal

- Planning and understanding the change management process is key and must start early
- It is important to engage with those who have direct relationships with the firms and understand how changes will impact those lawyers with long standing trusted relationships
- Understand the "hope of gain" and "fear of loss" for both procurement and legal teams
- Legal team needs to be a core part of any legal-related procurement and decision-making process
- Work to break down the barriers between procurement and legal working together - each can learn from the other and collaborate to achieve mutual gains and successes



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