Apperio

LEGAL SPEND WITH NO SURPRISES

Legal spend study signals competitive opportunities for law firms

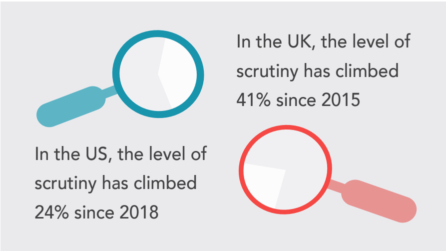
A client-side survey we commissioned earlier this year unveiled several useful benchmarks about the private equity (PE) community and its spending on law firm services.

The results provided insights about legal pricing, law firm panels, legal operations, and other useful benchmarks. While the numbers are the most important findings, the study also surfaced several broad observations that signal competitive opportunities for law firms.

Some of those follow below.

1. Predictable legal pricing, not necessarily lower.

Economic uncertainty causes a closer examination of legal costs. The legal community experienced this in a big way after the financial crisis of 2008-2009. While economic times have since been up-and-down, that period in history demonstrated that corporate legal departments could set – and stick to – an annual budget like every other function in business.



Accordingly, scrutiny of legal costs has continued to grow. In the PE community, our study found the level of scrutiny has grown 41% since 2015 in the UK, and by 24% in the US since 2018. Here's the important part: scrutiny isn't necessarily aimed at lowering legal prices, but rather assuring predictable costs.

2. Transparency is a plea for better client collaboration.

In our study, 6 in 10 UK respondents indicated their law firm partners aren't transparent about how they are spending their budget. That number jumps to 8 in 10 in the US. While it's related to legal spending, there's more to it: clients want to understand what's happening in between the kick-off and receipt of an invoice.

In practice, this means they seek visibility into work-in-progress (WIP) which enables them to make more informed decisions about the direction of efforts on their matters. In a sense, this call for transparency is a plea for better collaboration. The benefit of better collaboration for law firms is parlayed into better client relationships – and better client relationships lead to stickier client accounts.

In the UK, 6 out of 10 respondents don't believe their legal spend is transparent

In the US, 8 out of 10 respondents don't believe their legal spend is transparent

3. Business of law processes can make a difference.

The legal invoice is a client's last impression of any particular law firm engagement. Sometimes great work can be spoiled by a belated or inaccurate invoice.

While the overwhelming number of legal stakeholders – GCs, CLOs, and CFOs – value the counsel their outside law firms provide, problems emerge in the business of law side of affairs. More specifically, clients indicated they do not trust their law firm partners to bill them in a timely or accurate manner.

> "Great work can be spoiled by a belated or inaccurate invoice."

This leads to surprise invoices and is an illustration of how administrative issues are causing friction between in-house teams and outside counsel. These findings highlight an opportunity to improve those processes. For example, ensure your billing attorneys are getting their time entered promptly so the entries are accurate, and the billing department can get those invoices out promptly.

If two firms provide sharp legal advice, but only one also sends timely and accurate invoices, it's a step toward strengthening a client relationship that could help facilitate a greater share of the work.

Tangible Opportunities for Law Firms

The majority of PE houses in our study reported large one-off legal expenses – characterised as accounting for 5% or more of the annual legal spend. These matters are usually related to employment, regulatory or litigation matters. One-off expenses can open up one-off business development opportunities.

For law firms seeking to gain an initial foothold with new PE clients the three broad observations above spell out a straight-forward value proposition: We can handle your matters at a predictable price. We'll provide you with visibility into our WIP. And finally, we'll send timely and accurate invoices.

Taking that a step further, we posit that a firm that wins a chance to work on some of those large one-off legal expenses, also improves its odds of getting on a law firm panel. In turn, a foothold in a new client account can compound into opportunities to win a greater share of the work.

Here's a case in point: our study found while PE organisations work with as many as 10 law firms regularly, 75% of their budget goes to just 2-6 law firms. That's a trend that's been mirrored in the consolidation of law firm panels in the broader market for corporate legal services over the last decade.

All this underscores the notion that competitive opportunities are not limited to just understanding client needs and delivering good services. Law firms that solve simple client frustrations like predictable pricing, better client collaboration, and timely and accurate invoices may set themselves up for competitive opportunities.