The definitive buyers guide to legal spend management

10 considerations when selecting a legal spend management or e-billing solution.

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Introduction: Confusion in the market

There's confusion in the market over legal technology tools designed for law departments. Such confusion is a natural occurrence in a maturing market as software providers jockey for a strong position. The vendor community begins to use similar words and terms that all sound the same. As a result, prospective buyers struggle to understand the differences.

The market noise raises the perceived risk for buyers. The chances of selecting, implementing and training the legal team on a product that only partially solves the problem – or doesn't solve it at all – increase considerably.

This paper will look at legal spend management software with a special focus on comparing it to legacy solutions like e-billing. We believe our roots, unique approach, and continuous effort to champion spend management provide us with the foundations to make a genuine contribution.

Goals, key objectives and desired outcomes

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It sounds like an obvious consideration but it's important to align with everyone involved in the selection process. By establishing clear goals and key objectives, you can concentrate on the outcomes and ensure that your selected vendors are aligned to support them effectively.

E-billing typically focuses on the following areas as part of their value:

- Cost cutting - e-billing systems aim to reduce bills at the invoice stage often to the detriment of law firm relationships
- Enhancing internal business processes however introduces manual efforts for law firms

Legal spend management focuses on the maturity of your department in the following ways:

- Controlling spend before the invoice - with real-time visibility of spend, legal teams can track legal expenses to understand budget allocation, identify overspending, and make informed decisions for cost control.
- Driving efficiencies and improved ways of working for both clients and their firms
- Building trust and credibility internally with stakeholders
- Enhancing law firm relationships encouraging a collaborative approach

Questions to ask software providers

- ◆ What outcomes can I expect?
- ◆ What goals/ KPIs do you have in place with existing clients?

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Automated real-time data capture

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Many legal departments simply don't have the data to manage their numbers. That data resides with their law firm, and clients aren't notified of the status until they call a meeting with outside counsel or receive an invoice.

With just a simple data-sharing agreement between a legal department and its law firms, legal spend management software can automatically capture spend data from all law firms working on its matters. The data is automatically collated and normalised so it can be easily analysed.

Normalising the data removes the leg work of sorting through law firm emails, presentations and spreadsheets to manually extract and consolidate data for total spend analysis. When done manually, this process can take weeks and is still error-prone.

The data also goes stale quickly: the amount spent on outside counsel in the course of a month can change substantially. Automated data capture is continuous, so you always have access to the most current information available.

Questions to ask software providers

◆ Is the data collection process automated?
◆ What frequency is the data updated?
◆ What is the source of the data captured?

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Visibility into WIP, accruals and historical spend

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Most legal departments do not know what they've spent on a given matter until they receive an invoice. This is the most significant barrier to effectively managing corporate legal budgets.

Legal spend management eliminates the problem by providing visibility into your law firm's work-in-progress (WIP), accruals and historical spend data.

> " The single biggest driver was having transparency and clarity on what we're spending. We needed to know what was being spent, where it was being spent and have the ability to manage that with real-time access. "
>
> *Phil Warren, Head of Legal and Compliance | Cornerstone*

As such, in-house legal professionals can see the accumulation of fees as they happen and ahead of the invoice. They can act before a matter goes over budget.

By contrast, once an invoice is received, law departments that think an invoice is too high are arguing from a position of weakness. The work has been completed for months by the time an invoice arrives. It's difficult to challenge time entries and narratives entered 30, 60 or even 90 days prior.

With e-billing solutions, there may be reference to providing WIP but this is usually a manual effort by the law firm to provide a number on a monthly basis. This isn't automated and is often seen as unreliable data to actually use for internal reporting or budgeting purposes.

Questions to ask software providers

◆ Do you provide visibility into WIP and unbilled time?

◆ Is the visibility provided in real-time?

◆ Can you set up alerts to be notified when certain thresholds are met?

◆ Do you provide instant access to historical spend data?

◆ If not, how long will it take to obtain that data?

◆ Is the current and historical spend available on the same dashboard?

◆ In what ways can the data be filtered for analysis immediately post-implementation?

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Stay informed of shadow legal spend

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Despite attempts to centralise legal instructions, a certain number of matters will inevitably be instructed directly from individuals within the business. New matters can be opened and the legal department has no knowledge of the matter until they receive an invoice. It's a complete surprise and colloquially referred to as shadow legal spend.

While some corporations do this by design – that is they consciously have a decentralised legal function that pushes legal resources down to a division level – it still happens among centralised legal departments.

We see it often among infrastructure companies, utilities and financial services. An independent survey we commissioned found this happens to as many as 8 in 10 (81%) of the legal departments working in investment firms.
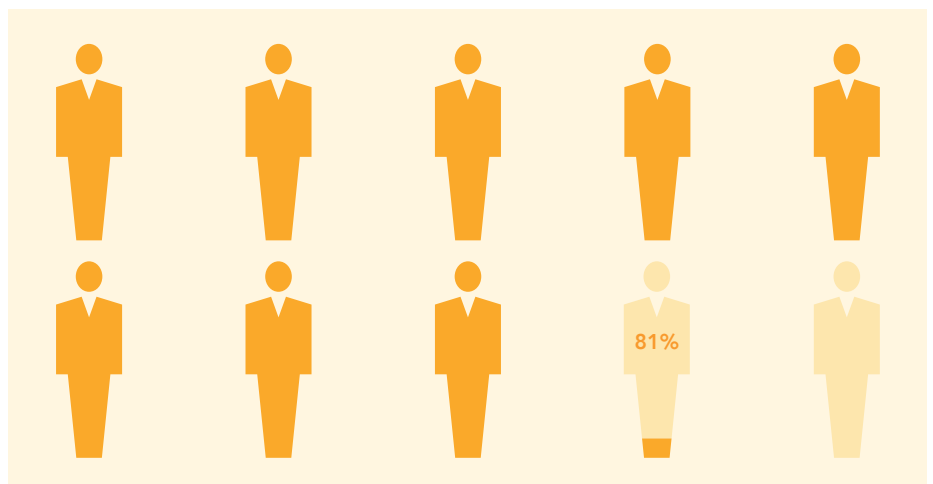
Shadow spend can also occur by virtue of executive authority: A CFO calls the managing partner at a Magic Circle or AmLaw 100 law firm for advice, without checking with the legal department first.

Because legal spend management gets its data from your law firms – the legal department is instantly notified any time a new matter is open or billable time is accrued. In other words, you can remain informed about shadow legal spend occurring outside of the corporate legal purview.

Questions to ask software providers

◆ Will your software automatically notify us of shadow legal spend?
◆ Can I monitor WIP and unbilled time on matters opened outside of a central legal function?

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Onboarding time and effort required

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The onboarding process for some software products can be a huge undertaking, requiring change management plans and disrupting how the team works.

Law firm adoption should be included in the planning process. Getting law firms on board with e-billing, for example, can be painful because it requires the firm to adopt a new tool and staff it. Implementations can drag out over months or even years.

Legal spend management is ready to go almost out-of-the-box. Connecting with law firms simply requires a data-sharing agreement – a signed piece of paper. So, implementation can be completed in weeks, or in some cases even days.

Questions to ask software providers

- ◆ How long is the average onboarding?
- ◆ How long was your longest and shortest onboarding?
- ◆ What effort is required on our side to ensure successful onboarding?
- ◆ How long does it take for customers to see the benefits of your software?
- ◆ What benefits come first – and last?
- ◆ What would prevent us from realising the benefits of your software?

Customer success and ongoing strategic value

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It's important to know who will work with you once onboarded and what service levels you can expect. Historically, software companies assigned an account manager, who served as an internal advocate to some degree, but also had sales quotas. Customers wouldn't hear from their account manager until just before renewal time.

Today modern software-as-a-service (SaaS) organisations have evolved that role into what's called Customer Success. The idea is simple: provide a consistent and dedicated resource who offers help and advice that helps the customer be successful with the software – at no additional cost. Customers that are successful with the software are naturally inclined to renew.

Customer Success teams are experts on the product and share best practices with the whole customer community. Be sure this team has an established cadence for delivering insight, best practice, and value with customers regularly.

> ### Questions to ask software providers
>
> ◆ Do you have a Customer Success team?
>
> ◆ Who will be my Customer Success manager?
>
> ◆ What is your approach to customer success?

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Impact on your relationship with law firms

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Too many tools force change on your law firms. In many cases, it costs them money, either directly through subscriptions or indirectly through new staffing requirements. At a minimum, they'll resist the initiative – and at a maximum, they'll simply refer new matters to another firm.

Those that remain do so reluctantly, and perhaps begrudgingly. Those costs will invariably be passed back to clients in some way shape or form.

> " We are quite close to the law firms on our panels, and we treat outside counsel as an extension of the in-house team - Software tools that help you to have an open conversation is key to managing those relationships. "
>
> *Sarah Gormley, Head of Legal Operations | Phoenix Group*

This is an odd approach for a profession like law which is often purported to be based on relationships. The fact is corporations need expert outside counsel advice and want them to be focused on the work – not debating invoices and fees.

Legal spend management is unique because it takes a collaborative approach rather than an adversarial one. It supports a frictionless experience between the law firms and the buyer of their services. Both sides can have a collegial conversation about what's happening based on data.

Even more tangible, legal spend management provides law firms with their own unique view of the data. They too have access to the analytics and real-time visibility which puts them on the same page as their client.

When we show legal spend management software to billing partners you can see a lightbulb going off on their faces. They can more easily understand the data they already have – and they don't need a degree in finance or IT to make sense of it.

As previously mentioned, law firms that get onboard tend to be paid faster, but more importantly, they gain a better understanding of the client. As a result, the software strengthens, rather than disrupts, the legal department's relationships with law firms.

Questions to ask software providers

◆ How do law firms feel about your product?

◆ What are law firms' biggest objections?

◆ What changes must law firms make to participate?

◆ What value do you provide for law firms?

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Is the cost structure simple and transparent?

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Some software products come with hidden costs. These can include additional charges or fees for:

- New users or license seats;
- Data usage or overage;
- Certain features or functionality; and
- Number of invoices or documents over a certain volume.

We believe legal spend management should provide the same level of transparency it espouses to provide for the process of managing legal spend. Costs should be consistent, transparent and provide unlimited usage.

Questions to ask software providers

◆ Are there any additional costs associated with adding more users?

◆ Are there any additional costs associated with data overage?

◆ Are there any additional costs associated with certain features?

◆ Are there any additional costs associated with document or invoice volume?

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Information security and technology requirements

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Information security isn't a competitive benchmark for evaluating solutions – it's table stakes. Yet it can be used to eliminate any solution provider that isn't following established best practices. One way to evaluate this is to ask for certifications.

Most products should have some combination of the following:

- **SOC 2 Type 2**. SOC Type 2 by the American Institute of Certified Public Accountants (AICPA) is an evaluation of the operational effectiveness of systems over an extended period of time. It is independently audited on an annual basis.
- **ISO27001**. ISO27001 is a globally recognised standard for Information Security Management Systems with an emphasis on good governance and mitigating information security risk with a comprehensive series of technical and organisational controls. It is independently audited on an annual basis.
- **Cyber Essentials Plus**. This is a cybersecurity program designed by the UK government to protect computer systems and data. It is a mandatory requirement for UK government suppliers to attain the Cyber Essentials Plus certification. It includes a penetration test and is also independently audited annually.

This shouldn't be limited to just certifications. A provider should demonstrate it has appropriately funded resources and programs such as:

- Dedicated information security professionals on staff;
- Commissions independent annual security penetration audits; and
- Uses reputable cloud vendors such as Amazon Web Services.

There are often wider stakeholders that need to be involved when implementing a legal spend management or e-billing solution. Ensuring these people are involved early on in the process ensures you can cover their technology needs. A few examples, we've seen include:

- **Accounting** needs to connect to the accounts payable (AP) system;
- **Finance** wants to important spend data into its business intelligence (BI) tool;
- **GC** requires spend data to be available on Microsoft SharePoint; and
- **Legal ops** needs a data feed for a custom mobile app.

Beyond just the technical capacity, you may need hands-on support from an experienced professional.

Questions to ask software providers

- ◆ What information security certifications does your software currently hold?
- ◆ What resources do you have dedicated to information security?
- ◆ Where is your application and data hosted?
- ◆ Do you commission outside experts to conduct annual audits?
- ◆ Do you commission outside experts to conduct annual security penetration testing?
- ◆ Does your software offer an API?
- ◆ Does your API support bi-directional integration?
- ◆ How many integrations has your company done so far?
- ◆ If we decided to do a new integration in the future, what support will you offer?

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Scalability and long-term partnership

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Your needs today will evolve as you, your team and the legal industry grows. Referring back to why you are implementing a solution and the goals you have in place as a business, it's also important to consider where you want to be in the future.

When evaluating legal spend management and e-billing solutions, consider their company vision and product strategy to determine if they can provide a scalable, long-term partnership rather than a short-term solution.

Questions to ask software providers

◆ What is your company and product vision?
◆ Can you talk about your legacy customers and how they have evolved as a legal department?
◆ What should I be thinking about in the future?

About Apperio

Apperio's legal spend management software provides analytics and real-time visibility on external legal matters. This empowers in-house counsel to control and optimise their spend with law firms, ahead of the invoice.

Rather than accumulating legal bills, Apperio works by aggregating data directly from the sources of truth – law firms' time recording systems. As a result, a greater level of granularity and analysis is possible - weeks before an invoice is received.

In-house teams can therefore work proactively with this data and gain confidence from an accurate picture of their spending. In turn, such insights can also improve the forecasting, budgeting and efficiency of the legal department.

Currently, Apperio is used daily by more than 50 in-house legal teams including Epiris, EQT, Network Rail, Royal London and Cornerstone.

Apperio is based in London, England. For more information, please visit Apperio.com or follow Apperio on LinkedIn or Twitter.

E-billing is NOT legal spend management

As legal spend management has grown in popularity, e-billing providers have increasingly misappropriated the term. Many use words like e-billing and legal spend management interchangeably. Even some otherwise reputable tech analyst firms have added to the confusion by lumping these two legal technologies together in their reports.

The fact remains e-billing is not legal spend management. Legal spend management addresses the problem in a completely different manner. In fact, these two software tools are exact opposites.

Because e-billing requires an invoice to elicit a reaction, e-billing begins working at the tail end of the process. By contrast, legal spend management begins working the moment an engagement letter is signed. In effect, e-billing is partial spend management while legal spend management is total spend management.

Definitions

Legal spend management enables corporate counsels to manage their total legal spend ahead of the invoice. Legal spend management tools automate data collection and provide a comprehensive analysis of legal spending. This includes both real-time WIP, unbilled accrued time and historical spend. It also spans the entire end-to-end process – from engagement letter to invoice review and approval.

E-billing supports the process of managing invoices from law firms for services rendered. It provides automated invoice review and keeps track of approval routing. E-billing may also capture data from invoices processed through its system. Over a period of time, it can aggregate enough invoice data to perform some historical analysis.

Here are some of the key differences between these two legal tech tools:

Legal spend management	E-billing
Automated invoice management and detailed accrual data	Invoice management
Proactive: see spend before the invoice	Reactive: invoice informs the cost
Wholistic data	Subset of data
Real-time data: WIP, accruals and unbilled time	Data limited to invoices after processing
All historical data instantly	Data aggregated from processed invoices over time
Collaborative approach	Adversarial approach
Gets the client and law firm on the same page	Pits clients against law firms and vice versa
Provides value to clients AND law firms	Provides value to clients at the expense of law firm relationships

Elevating the legal department's reputation

Apperio has worked with legal departments to transform their reputation internally – among peers and other business departments. They went from being one of the few departments that couldn't report on what they had spent on legal services – or forecast what they would spend – to becoming a role model for other departments to follow.

We've even begun to see use cases where clients are taking legal spend management – and applying the system to other parts of the business. For example, after seeing what legal could achieve with the software, we have customers that have begun to also use it for tax, consulting and other outside advisory services.

The negative impact of e-billing on law firm relationships

As the cost of legal services has grown over time, so has the pressure to reign in legal expenses. Historically, the only plausible technology to address the challenge was e-billing.

And e-billing did help a little. For example, it helped standardise legal data around budget, expenses and matters. It also delivered some modest savings. Our research suggests it saves clients 2% of their legal spend overall on average.

The technology sparked a movement, so to speak, where for the first time, corporate counsel had a tool to push back on the opacity of law firm invoicing. Yet in a sense, it was also weaponising technology and data in the process. In the end, e-billing was like taking a sledgehammer and smashing corporate legal's relationship with law firms.

The law firm perspective on e-billing

Since there are many different e-billing solutions, law firms would have to connect to, and in some cases pay, many different vendors for the privilege of invoicing their clients. That forced law firms to change their internal processes. Many had to hire additional staff – e-billing administrators, invoicing experts and operations professionals – which added to overhead costs.

Perhaps worst of all, e-billing puts a computer between them and their client. Instead of strengthening the relationship, e-billing pitted both sides against each other. It also put a renewed focus on haggling over invoices, rather than solving legal problems.

Corporate counsel faced challenges with e-billing adoption too. Many of these tools were designed a decade or more ago – so the products are clunky, lack modern design and therefore difficult to use.

It's not a software tool the whole legal department uses either. Often there's just one administrative power user that spends their time setting up matters and reconciling invoices. That's a single point of failure. If that single power user leaves the department, the whole process falls apart.

A decade ago, e-billing tools were a new addition to the legal department's toolkit. It was valuable for automating the process of invoice review. However, it was still retrospective and left corporate counsel and legal operations reacting to surprise invoices. So, while e-billing can be helpful in some cases, it alone is insufficient.

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