

## The Guide for Buying Legal Services

This guide from Dr. Silvia Hodges Silverstein, CEO from BUYING LEGAL® COUNCIL is aimed at procurement professionals who are engaged in, or seeking to be engaged in, buying legal services.



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## The Guide for Buying Legal Services

This Guide is aimed at procurement professionals who are engaged in, or seeking to be engaged in, buying legal services. While legal services used to be outside the remit of procurement in many organisations, it is a category in which procurement professionals can add tremendous value for the benefit of their organisation.

During the last few years, an increasing number of procurement professionals have gotten involved in the legal category. As “legal procurement” professionals they are able to use a professional procurement approach for legal services in a productive way, driving value and competitive advantage for their employers. Legal procurement’s value extends beyond cost cutting and includes strategic spend management initiatives. They fulfil their corporate mandate of better managing legal spend and supporting the legal department in data-driven decision-making. They help the legal department buy a range of services and manage the business side of the relationship with their providers: Clients today can obtain legal advice from qualified in-house lawyers, law firms, law companies aka alternative legal services providers (ALSPs), legal process outsourcing companies (LPOs), or from leveraging legal technology and applied artificial intelligence. But more about this in a moment.

Any organization with significant external legal spend that does not involve procurement today is not practicing best practice.

This Guide helps you make the case for getting involved in buying legal services; it provides you with several important benchmarks, and gives you information about the legal system, the legal market, law firms, and other legal services providers.

It was composed and is based on research by the Buying Legal® Council, the international trade organisation and source of education and research for professionals tasked with sourcing legal services and managing supplier relationships.

You can also listen to the CIPS podcast with further tips and advice from Dr. Silvia Hodges Silverstein on Buying Legal Services [here](#).

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## What you should know about legal procurement

### What does legal procurement do?

Typical legal procurement tasks include:

- Establishing an efficient and robust vendor selection process, Issuing RFPs and running the RFP process
- Identifying and short-listing best value legal services providers, including law companies, LPOs, ancillary legal services providers, legal technology providers
- Helping to “unbundle” legal services and match different tasks with the most appropriate suppliers (law firms, law companies, LPOs etc.)
- Influencing decisions about law firms, law companies, LPOs, ancillary legal services providers, legal technology providers legal technology decisions
- Negotiations for price, terms and conditions, identifying opportunities for innovative fee arrangements
- Managing the relationship with providers (law firms, law companies, LPOs, ancillary legal services providers, legal tech providers)

Ideally, legal procurement is involved in the entire process of buying legal services, including the selection and on-going management of suppliers (law firms and other legal services providers), not just during the RFP phase.

Procurement’s influence on buying legal services varies depending on the type of legal service bought and the service’s perceived risk level. Many legal procurement professionals are initially tasked with sourcing routine matters and so-called “ancillary” legal services (think court reporting or litigation consultants). Generally speaking, procurement has more influence on routine matters and ancillary services than high-risk, “bet-the-company” work (such as IPOs or mergers & acquisitions).

Most legal procurement professionals also influence legal technology purchases, including eBilling software and other technology for the legal department. Given that procurement professionals frequently have a background in purchasing complex IT, this is a natural fit and lets the legal department benefit from their experience buying technology in other areas.

We adapted Kraljic’s Portfolio Purchasing Model to the legal industry (see below). It shows where procurement has the ability to most drive savings in legal issues. Please note that “supply scarcity” is rarely an issue for clients as there are many capable legal providers for most legal issues.

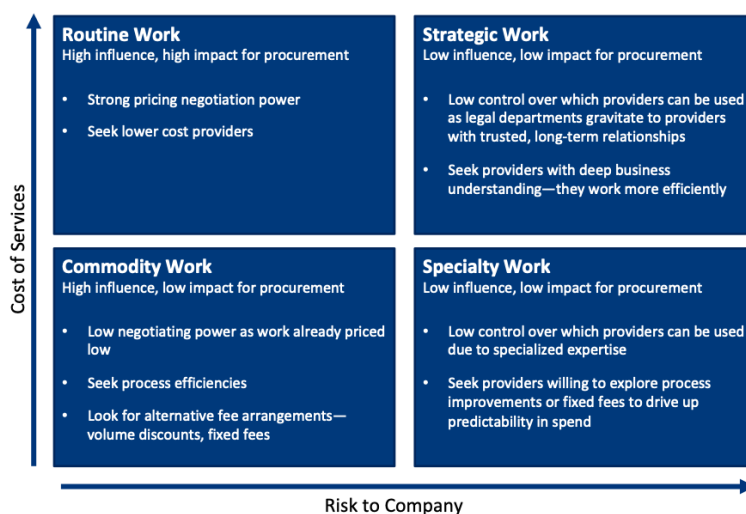


Exhibit 1. Adaption Of Kraljic's Portfolio Purchasing Model To The Legal Industry  
(Buying Legal® Council)

## What does it take to be successful in legal procurement?

The most successful legal procurement professionals have a positive relationship with their colleagues in the legal department and with legal operations (“legal ops”). Legal Ops is a multi-disciplinary function intended to help the head of the legal department (“general counsel”) better manage the legal department and optimise legal services delivery within the organisation. Their activities include:

- Evaluating and implementing technology solutions
- Optimising the management of the legal department
- Managing internal resources
- Working with external providers (such as litigation support & eDisclosure; intellectual property (IP) management; information/data governance and records management; knowledge management; financial planning, analysis and management etc.

Most legal operations professionals have a legal background and report to the general counsel. Legal ops has the data you need. Together, you can have a positive influence in many aspects of legal spend management.

**Practice Tip:** If your organisation has legal operations professionals, get to know your colleagues. Befriend them, work with them!

The other component for success in legal procurement is tenure. We found that legal procurement professionals with a longer tenure are significantly more successful in driving value for the organisation than those relatively new to it. When procurement first gets involved in the legal category and uses a professional sourcing approach to buying legal services, companies are very likely to see significant quick wins. However, once the “low hanging fruit” have been picked, a deeper understanding of the category may be necessary to continue to achieve large savings.

**Note:** Success is built over time in the legal category. Legal is not a category procurement professionals can work in for a few years, only to switch to the next category. It takes time to gain knowledge about the legal industry; it takes time to establish trust and build relationships with the legal department, and to know what is working for their organisation. In the legal category, clients

continue to have more and more choices of legal services providers and significant negotiation power, which they can use to their advantage.

## Get involved in the legal category

A little bit of background: Legal services used to be largely exempt from the intense cost scrutiny other business units and functions have been facing for years. The financial crisis a decade ago acted as a catalyst and accelerated the adoption of legal procurement, particularly in large corporations. Companies with significant legal spending started to involve procurement in the evaluation and selection of legal services providers in the early-to-mid 2000s, with the earliest legal procurement activities dating back to the mid-to-late 1990s. Among the first industries to embrace legal procurement were highly regulated industries such as pharmaceutical companies and financial services institutions, as well as energy companies and utilities.

Procurement professionals are typically brought in to:

- Help the legal department reduce external legal spend: Legal procurement does this by applying procurement processes to the legal function
- Help better capture and analyse spend data: With more and more accurate spend data available, internal base lining and external benchmarking, procurement can apply its data-driven approach to decision-making in the legal category
- Assist better managing legal work: Clients now routinely pay close attention to how legal work gets done, how their work is scoped, staffed, and delivered. They ensure that outside counsel guidelines and budgets are adhered to, and benchmarks reached. Sophisticated procurement professionals know that managing the delivery process offers the biggest lever to drive continuous improvement.
- Facilitate implementing formal strategies and processes: Managing the selection of vendors (law firms and other legal services suppliers, including software companies and other technology providers), including the use of RFPs; Establishing payment terms; Negotiating contracts and managing fee proposals; Monitoring compliance with negotiated engagement terms; Evaluate law firms together with in-house counsel based upon criteria important to the legal department

## Make the case for getting involved: The benefits of legal procurement

Legal departments sometimes resist the involvement of procurement professionals in the buying of legal services. You may have to help the legal department overcome its fear of loss of power and influence when you introduce new (procurement) processes and mitigate their concerns about a business and process-driven approach disrupting long-standing relationships with firms. Another challenge could be in-house counsel's perceived need for confidentiality for certain matters which they do not want to be disclosed to procurement. There is also the fear that procurement will always favour price over quality of firms, implying that higher price equals better quality.

**PRACTICE TIP:** Be resilient: do not be put off by Legal's less than warm "welcome". Do your homework. Provide useful updates and dashboards. As we mentioned before, get to know your colleagues in legal ops. Also learn about what's going on in the legal industry in general and meet with the business people on the law firm side. Most corporate law firms today have a business person that is a natural counterpart for you. The person may be in pricing, operations, project management, business development, marketing, or finance. Ask educated questions and learn from your industry peers.

## Move the legal category from transactional to strategic

The first steps in legal procurement are often transactional and sporadic: Procurement may be tasked with running a request for proposal (RFP) or be involved in price negotiations. Strategic sourcing involves procurement professionals with further projects and on a more on-going basis. Global supply management is the final step in the model below. Aim to continuously improve the performance and efficiency, integrate the sourcing process and proactively coordinate practices, processes, and technology. The results will be larger value creation.

	Traditional Purchasing	Strategic Sourcing	Global Supply Management
Paradigm	Transaction	Project	Enablement
Focus	Price, Transaction management, Compliance	Firm and Spend rationalisation and consolidation, Standardisation	Balancing Total Cost and Quality; Maximising shareholder value; Enabling service innovation
Reach	Local; Many suppliers	Multi-regional, Some collaboration with related functions	Global; Highly collaborative across the enterprise and visible at executive levels
Technology	Spread sheets	Auctions, eBilling, Basic optimisation	Technology enablement across all strategic sourcing processes
People	Decentralised Buyers	Legal Procurement Teams, Centre-led or centralised	Cross-functional teams Global

Exhibit 2. Adaption of Evolution of Procurement Model to Legal Procurement  
(Buying Legal® Council)

## Take the first steps

**How you handle the first 100+ days in the legal category will be crucial for your success as it sets the tone for building the necessary trust with your colleagues as well as the providers of legal services.**

Here are some tips for starting out in the legal category:

- **Reach out:** Start building relationships with your colleagues in the legal department and legal ops and strive to become a real partner. Do not “do” procurement “to” them, but seek collaboration.
- **Listen and understand:** Learn how your colleagues in the legal department and legal ops currently source legal services and how they manage supplier relationships. How do they approach “make or buy” decisions? Understand how they switch between their roles as “doers” of legal services/managing internal resources and managers of external resources/outside counsel. What do they think works well, what do they see as areas for improvement? Take the time to find out.
- **Educate yourself:** Every area has its lingo, commonly used terms, and abbreviations. Learn about basic legal concepts and how to speak “legalese.” Subscribe to legal publications (online and/or in print) and attend legal seminars or webinars.



- Offer your help: Find out which issues keep your colleagues in Legal up at night. Is there anything that you can address that is outside their primary area of expertise but needs to be done? For example, get visibility into spend data, spend drivers, data security, project management of outside counsel, matter management systems, eBilling, benchmarking data or rate cards etc. Understand how your colleagues get measured and strive to make their life easier.
- Gain credibility: Start with a “pilot” project –ideally an ancillary legal service– and showcase how you can add value. Present the business case and make your colleagues in the legal department look good: help them be seen as good stewards of the company’s money. Having an executive champion – the general counsel, CFO, COO or CEO- will make or break your success in this category

And take these steps:

1. Learn from the pioneers and read the Harvard Business School case study on GlaxoSmithKline’s approach to buying legal services [<https://store.hbr.org/product/glaxosmithkline-sourcing-complex-professional-services/414003>]. The pharma company's foray into the legal category is considered ground breaking.
2. Get your copy of the Legal Procurement Handbook [<https://www.buyinglegal.com/shop>]
3. Join Buying Legal® Council best practices webinars [<https://www.buyinglegal.com/Calendar>] and access our online legal procurement Toolbox [<https://www.buyinglegal.com/TOOLBOX>]
4. Get certified in Fundamentals of Legal Procurement. Work through our 90-day programme and test your new skills. (If you are looking for a refresher course, take the tests and see which areas you should study more in-depth.) The programme will provide you with the foundation knowledge you need in your legal procurement career and the Certificate is a great resume builder!

The Buying Legal® Council will be your most critical companion and help you get started, build better relationships and learn how to earn your colleagues' trust, ensure that you become indispensable, are able to drive change and impact, get more value and better service from the law firms and other legal services providers.

## Get legal spend under management

One of legal procurement’s main task is to support the legal department manage external legal spend. Legal departments traditionally took a “passive” approach to legal spend management: They may have set up policies and procedures that encourage self-regulation of spend management, but had taken little direct influence on benefits and cost savings. Since more and more CEOs and CFOs require legal departments to establish and adhere to budgets, an “active” management approach actively engages with outside counsel to ensure policies and procedures are followed and benefits and savings are realised. “Collaborative” management goes even further and includes developing shared accountability between outside counsel and in-house lawyers to deliver innovative solutions.

The table below shows the different maturity levels of legal spend under management with their associated Key Performance Indicators (KPI).

Level	Definition	Key Performance Indicators
Not managed	Spend is decentralized, invoices are manually collected and paid, no consistent way to collect spending data.	<ul style="list-style-type: none"> <li>Accounts Payable spend reports (or nothing)</li> </ul>
Visible	Spend is centralized in an e-billing system, data is managed through ad hoc reporting or a business intelligence tool, and reports can be generated and delivered to track spending.	<ul style="list-style-type: none"> <li>E-billing system implemented</li> <li>Data linked to business intelligence tool</li> <li>Spend reports can be communicated by department/group</li> </ul>
Passive	Spend is managed through e-billing rules, basic invoice auditing, and new matters and timekeepers are monitored for compliance. Performance reporting is provided internally.	<ul style="list-style-type: none"> <li>Engagement letters</li> <li>Billing requirements</li> <li>New timekeeper and matter processes</li> <li>Internal spend and rate reporting</li> <li>Light legal bill review</li> </ul>
Active	Rate approvals are managed centrally through a negotiation process. RFPs, competitive bids, or discounts are used to set rates and drive down costs. Work is right-sourced to appropriate firm or third-party provider and invoices are reviewed for compliance.	<ul style="list-style-type: none"> <li>Timekeeper rate negotiations process</li> <li>RFP/RFQ policy</li> <li>Alternative fees and discounts</li> <li>Unbundling/realigning work</li> <li>Legal bill review</li> </ul>
Collaborative	Competitive bidding managed at the matter level and budgets are provided. Matters are actively managed and outside counsel, staff lawyers, and legal operations work in partnership to manage critical matters. Shared ROI and alignment with outside counsel & other vendors.	<ul style="list-style-type: none"> <li>Legal project management</li> <li>Detailed matter budgeting</li> <li>Predictability and forecasting</li> <li>Benchmarking</li> <li>Sharing of best practices</li> </ul>

Exhibit 3. Legal Spend Under Management Maturity Levels  
(Buying Legal® Council/Elevate)

Note: Use this model to assess where your organisation is currently situated. Identify tools and performance indicators to implement and to progressively get more legal spend under professional management.

There are a number of Legal Spend Management initiatives. Each initiative can deliver cost savings for the organisation and offers specific performance benefits. Initiatives also have different time horizons and may be better suitable for certain organisations and cultures than others.

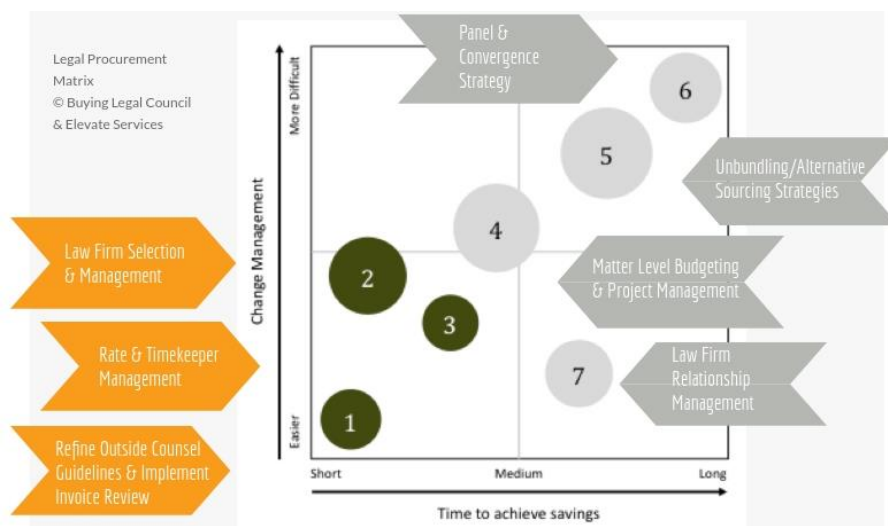


Exhibit 4. Legal Spend Management Matrix  
(Buying Legal® Council/Elevate)

The Legal Spend Management Matrix maps initiatives to help you prioritise your activities:

- **Time to Achieve Benefits (X-axis):** Strategies in the left quadrants typically realise benefits more quickly than strategies in the right quadrants.
- **Change Management Requirements (Y-axis):** Strategies in the bottom quadrants tend to be easier to deploy – either technically or politically – than strategies in the top quadrants.
- **Benefit Opportunity (Bubble size):** Larger bubbles show strategies that are more likely to deliver greater cost savings than strategies indicated by smaller bubbles.

A legal department that requires fast cost control measures might select projects in the bottom-left quadrant, while an organisation looking for large and sustainable benefits across a longer time horizon might consider projects in the top right quadrant. It is not necessary to implement legal spend management initiatives in the numbered sequence (from 1 to 7). When designing a strategic program, begin with both short and long-term work streams to realise the benefits both quickly and consistently.

## Use these selection criteria for legal services

Experience with similar matters is the most important selection criterion when comparing legal services providers. It was particularly important for matters deemed “high-risk” as it suggests that the provider is able to work effectively and efficiently from the start. The client will benefit from much reduced time and research efforts on the issue (and hence will not be charged for it).

Selection criteria related to price vary depending on the type of work:

- Predictability and efficiency are most important for high-risk/bet-the-farm work and complex, significant work.
- Low fees and efficiency are most important for routine, commodity work.

## Benchmark yourself

### Legal spend

Legal spend comprises both legal department staffing costs, outside counsel spend as well as regulatory fines and penalties. According to data by the Association of Corporate Counsel, total legal spend as a percentage of company revenue ranges from 0.4 per cent to an average of 2.3 per cent. Highly regulated industries like banks, insurance companies, and pharmaceutical companies tend to spend on the upper end of this range, significantly more than similar-sized companies in other industries.

**BENCHMARK YOURSELF:** What does your organisation spend on legal services, annually, globally? Do not forget to include legal services that are not part of the legal department’s budget, but come directly out of budgets of different business units.

### Savings

Procurement professionals are often measured on their ability to reduce spending. For better or worse, savings achieved hence remain an integral benchmark to measure procurement’s success and are a closely

monitored number. Buying Legal® Council 2020 survey findings suggest that on average, legal procurement professionals were able to save their organisations 17 per cent of the total legal spend.

A majority of organisations has formal savings definitions, calculations and reporting methodologies in place, i.e. documented in writing and approved by a relevant body in their organisation.

**BENCHMARK YOURSELF:** Set a baseline for spending and measure what your organisation is able to save due to your involvement.

## Tools

Negotiating discounts is the most commonly used tool. Almost no clients pay law firms' "sticker" price. Other commonly used tools include:

- Negotiating Alternative Fee Arrangements
- eBilling
- Issuing and enforcing outside counsel guidelines (OCG)
- Issuing RFPs has become the standard way to select law firms and legal services providers
- Conducting data analytics (spend and cost analyses)
- Freezing rates (i.e. not allowing automatic annual rate increases)
- Establishing panels of preferred provider firms
- Matter-level hiring via RFPs.
- Pre-matter scoping of work
- Developing sourcing criteria and purchasing strategies
- Auditing invoices
- Applying legal project management
- Using eAuctions

Be aware that just because a tool is frequently used does not mean it is considered the most effective. In fact, the top three most effective tools are:

1. Issuing and enforcing outside counsel guidelines
2. Conducting data analytics (spend and cost analytics)
3. Requiring eBilling

Other tools that are considered effective:

- Establishing a panel (preferred list of vendors)
- Issuing RFPs
- Negotiating AFAs (not discounts)
- Pre-matter scoping of work
- Conducting invoice audits
- Developing sourcing criteria and purchasing strategies
- Negotiating discounts

**BENCHMARK YOURSELF:** Which tools does your organisation use when buying legal services? Which might you want to consider using?



## Fee arrangements

Procurement is frequently tasked with negotiating fees for legal services. Legal services used to be priced on an hourly model with fee earner's rate cards. In the last decade, clients have increasingly insisted on non-hourly pricing, often referred to "alternative" fee arrangements (AFAs.)

Fee arrangements for legal services come in three categories and can be applied to an entire matter, distinct stages of a matter, or across a group of matters:

- **Hourly-based models:** They are based on the number of hours providers spend on a client's matters. The hourly rate of a fee earner is negotiated in the provider's rate card and depends on a number of factors such as the location and size of the law firm, the fee earner's partner or associate status, years of experience, and practice area. They include Straight discounts; Volume discounts, "Venture capital" discounts; Blended rates; Capped fees; Collared fee or risk-collared arrangements; Outcome-dependent holdbacks; Contingency fee arrangements; or Success fees (or partial contingency fees).
- **Fixed/flat fee models:** They give clients predictability and certainty: clients know precisely what the firm will charge them. The firm, not the client, assumes the risk of cost overruns. Fixed and flat fee arrangements provide incentives for the firms to work efficiently by removing the correlation between time expended and profit. Other models that fall into this category include Flat fees with shared savings; Fixed fee menus; Portfolio fixed fees; Fixed fees with articulated assumptions arrangement; Bundling arrangements; Subscriptions or retainers.
- **Value base models:** They aim to align legal cost with the client's sense of the value of the legal services provided and seek to reflect a firm's contribution to a case. They assume that the hours spent were not necessarily a relevant indicator of that contribution and may actually create an incentive to distort billings. Value fees must not be confused with flat or fixed fee pricing. To the client it "looks" the same in that it results in a set fee, however, the price is arrived at in the opposite manner: by an open discussion of the value to be delivered by the firm. The value determines the price, and the cost (or project management plan) is based on the value proposition.

According to research by the Buying Legal<sup>®</sup> Council, the most frequently used fee arrangement models are:

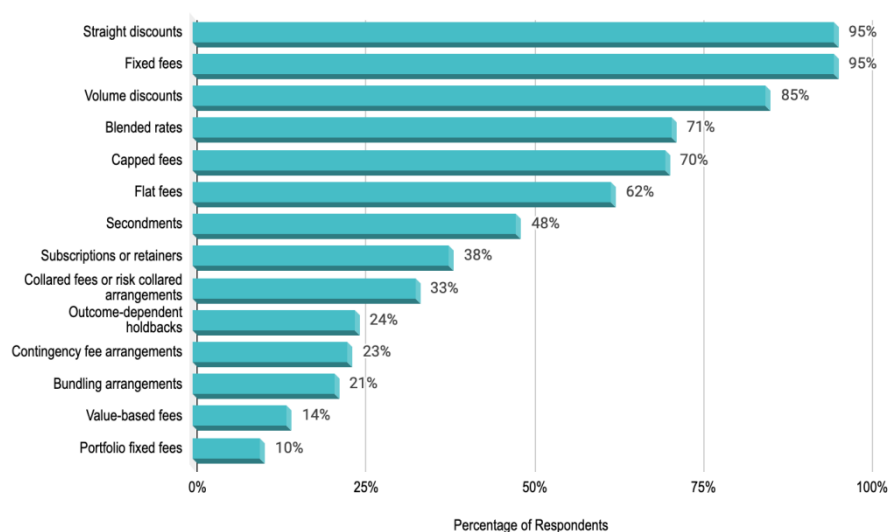


Exhibit 5. Most Frequently Used Fee Arrangement Models  
(Buying Legal<sup>®</sup> Council)

However, just because a model is frequently used does not mean it is considered the most preferred. In fact, the top three most preferred models are:

1. Fixed fees
2. Capped fees
3. Volume discounts

**BENCHMARK YOURSELF:** Which fee arrangements does your organisation have in place? Which worked well –and why? Which didn't work well –and why?

## Number of law firms

In the past, in-house counsel and business units were allowed to pick any outside counsel they wanted. As a result, the numbers of firms that were instructed in a given year mushroomed to hundreds of firms. It was not unusual for large organisations to have over a thousand firms on their roster. This long list of providers led to work duplications, conflicts and wasteful spending as well as missing out on benefitting from one's purchasing power and other benefits of strategic partnering with a smaller number of firms. (An attempt to converge the number of firms was the 'DuPont Legal Model' in 1992.)

According to research by the Buying Legal<sup>®</sup> Council, clients instruct on average between 150 to 200 firms. When using panels of preferred provider firms, this number is 20 to 30 firms.

**BENCHMARK YOURSELF:** How many firms did your organisation use during the last three years?

## Increase your knowledge about the legal system

### Jurisdictions

The United Kingdom comprises of three legal jurisdictions:

- England & Wales
- Scotland
- Northern Ireland

Although Scotland and Northern Ireland form part of the United Kingdom and share Westminster as a primary legislature, they have separate legal systems. While Scots law has remained distinct from English law, the UK's highest civil appeal is the Supreme Court of the UK. Its decisions are binding on all three UK jurisdictions.

Note: There is a difference between jurisdiction and country. "Jurisdiction" is the power, right or authority to interpret and apply the law, and to administer justice. "Country" is a geographic area of land.

### Common Law and Civil Law

Legal systems around the world fall into two categories: Common Law and Civil Law systems. Civil Law originated in Continental Europe and is based on the framework of Roman Law. Its core principles are codified into a referable system, which serve as the primary source of law. Common Law originated in medieval

England. Its intellectual framework came from uncodified judge-made case law and gives precedential authority to prior court decisions.

About 150 countries (e.g. France, Germany) follow a Civil Law system and about 80 countries (including the UK) a Common Law system.

## Solicitors and barristers

In Common Law tradition, the roles of a lawyer as legal adviser and advocate were formally split into two separate, regulated sub-professions: solicitors and barristers.

A solicitor is a qualified legal practitioner contracted by the client to handle the preparatory work of the case, such as investigation, consultancy, and perform 'behind the scenes' type-work such as:

- Advising people who come to them with legal issues
- Holding negotiations and discussions between parties who are trying to reach agreement on a legal issue
- Drafting and reviewing legal documents, such as contracts.

When the case demands a courts case, the solicitor contracts the services of the barrister. At this point, the solicitor acts as attorney of the client, representing the client, and the barrister acts as per instruction of the solicitor.

A barrister is a qualified legal professional who offers specialist advice representing, advocating and defending clients in court or at a tribunal. Apart from court advocacy, important aspects of a barrister's work include the preparation of "opinions" and "pleadings".

- Opinions are expert guidance for solicitors who are seeking to advise clients regarding the action they should pursue. The results of such opinion may be that an action will be commenced against some offending party or that the action is considered "unsafe" and that it would be advisable to settle out of court.
- "Pleadings" are statements to be made in court when a plaintiff's case is presented or to rebut the claims made by a plaintiff on behalf of the defendant. Many barristers specialise in one area of the law, although some may have a more general practice covering a variety of areas.

The distinction between solicitors and barristers used to be absolute, but more recently, the roles have become more blurred: Solicitors can now obtain 'rights of audience' which enables them to represent clients in court while barristers are allowed to give legal advice and to contact directly with the clients. (Barristers continue to be able to work in a significantly higher level of court than solicitors.)

Solicitors are typically employed by a law firm or by commercial organisation as 'in-house' solicitor. Barristers tend to be self-employed and affiliated with chambers which they share with other self-employed barristers. Chambers typically operate as de-facto partnerships since they provide "mutual support" in respect of expenses and the allocation of work, professional association, informal advice and guidance, "devilling" and assistance to newcomers.

Note: Not all common law systems distinguish between solicitors and barristers. The United States for example, does not distinguish between lawyers as pleaders (barristers) and lawyers as agents (or solicitors). All lawyers who have passed a bar examination and have been admitted to practice may prosecute or defend in the courts of the state where they are admitted.

## The UK court system

In England and Wales, most **civil cases** are heard in the **County Court**. Many **specialist tribunals** have been created to resolve particular types of civil disputes, including taxation, employment, immigration and asylum cases. All **criminal cases** originate in the **Magistrates' Court**, while more serious offenses are referred to the **Crown Court**.

The **High Court** functions as a court of first instance for high value civil claims and as an appellate court for civil and criminal cases. It consists of three divisions: the **Queen's Bench**, the **Chancery Division**, and the **Family Division**.

The **Court of Appeal** functions as an appellate chamber. The **Civil Division** hears appeals from the High Court and the County Court, and the **Criminal Division** hears appeals from the Crown Court.

Further information: Courts and Tribunals website (<https://www.judiciary.uk/about-the-judiciary/the-justice-system/court-structure/>)

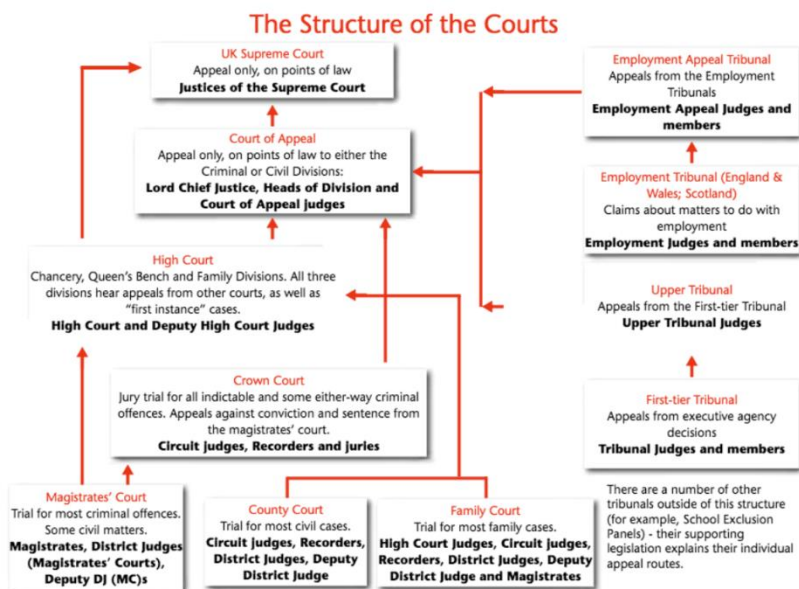


Exhibit 6. The Structure of the Courts (in the UK)  
(<https://www.judiciary.uk/wp-content/uploads/2012/08/courts-structure-0715.pdf>)

## Increase your knowledge about the legal market

### Market size

The legal services market in the UK was valued at an estimated GBP 37 billion in 2019, while the global market for legal services exceeded US\$900 billion. It was estimated that the global legal services market would exceed one trillion US\$ worldwide soon, however, the COVID-19 pandemic makes the market size for 2020 and 2021 difficult to forecast.



## Industry growth

In many jurisdictions, the market for legal services has been flat over the last few years. Even before the COVID-19 pandemic, productivity declined and expenses increased. Law firms have mainly relied on rate increases to drive positive financial performance. Demand varies by practice area: Labour and Employment as well as Bankruptcy grew the most and are currently very busy, while others, such as Corporate and Real Estate are less busy at most firms. It remains to be seen if the COVID-19 pandemic will increase demand for Litigation as during most economic downturns.

## Level of competition

We believe there is a lot of competition in the legal industry that clients can use to their advantage. The Buying Legal® Council uses Porter's "5-Forces" framework to assess competition in the legal industry:

### Rivalry among Existing Competitors: Our verdict: HIGH

The intensity of competitive rivalry determines the competitiveness of the industry. In the legal industry, there is:

- Stagnant industry growth
- Excess supply of lawyers
- Firm concentration: Increased consolidation
- Drop in lateral partner movement
- Clients bringing work in-house ("make" vs. "buy")
- Service outsourcing or insourcing to achieve lower cost
- Increased globalisation, leading to increased local competition
- Firms focus more on marketing and business development (sales)
- Fungible capacity—each unit of production (one lawyer) can switch from firm to firm

### Threat of New Entrants: Our verdict: MEDIUM TO HIGH

Profitable industries with high returns (like the legal industry) attract new entrants. The following factors can have an effect on how much of a threat new entrants may pose to existing firms:

- Barriers to entry are relatively low: in most jurisdictions, a bar exam is required to open and own a law firm.
- Capital requirements are relatively low. Capital is only required for investments in space, technology, and workforce.
- Technology allows even small firms to handle complex legal work.
- Switching costs for clients are relatively low, but depend on the practice area and type of client. Lawyers have to be brought "up to speed" on the client's situation, but research shows that while some clients are loyal to their firms, more and more clients care more about matter expertise than knowledge of the organisation or industry.

### Threat of Substitute Services: Our verdict: HIGH

A substitute product uses a different technology or business model to try to solve the same issue or economic need. Potential substitutes in the legal industry include:

- New providers (law companies/ALSPs) are more frequently hired by big corporations to complement or substitute traditional firms
- Artificial Intelligence applied to eDisclosure and other areas
- Internet-based legal services
- Legal services provided by "non-lawyers"

- Accounting firms (particularly the “Big Four”) offering legal services
- Where allowed through deregulation, other “non law firm” competition offering legal services
- Franchises and national chains

#### Bargaining Power of Suppliers: Our verdict: LOW TO MEDIUM

The bargaining power of suppliers depends on the number of choices or alternatives. In the legal industry this is:

- Search for top legal talent, in particular with a “diverse” background
- Law school output remains stable
- Lawyers going in-house, public service, non-profit

#### Bargaining Power of Buyers: Our verdict: MEDIUM TO HIGH, Increasing

The bargaining power of clients depends on their own sensitivity to possible price changes and their ability to put firms under pressure. Buyer power is high if buyers have many alternatives and low when they have few choices. Bargaining power is influenced by:

- Demand generally flat for legal services (but depends on the area of practice)
- Legal departments under growing cost pressure
- Process revisions of hiring outside counsel: more clients use competitive procurement processes for most major matters, increasingly managed in collaboration with (or by) legal procurement
- More vigorous budgeting and billing processes that demand firms to be more cost effective and accountable
- Use of outside counsel guidelines with special requirements regarding billing, expenses, staffing etc.
- Growing in-house capabilities and internal outsourcing
- Clients are generally less loyal
- Clients consolidate outside counsel to fewer firms they regularly hire
- Business relationships are replacing personal trusted advisor relationships
- Involvement of procurement for buying legal services
- Legal ops takes tougher measures to manage legal departments for more efficiency and effectiveness
- Higher analytical capabilities for better selection and control, demand for law firm efficiency and accountability
- Clients demand more value, risk sharing, and alignment of interests when it comes to billing, including alternative fee arrangements
- Continued disaggregation (unbundling) of services
- Clients requiring teams of outside counsel, in-house counsel, ALSPs/law companies or LPOs to collaborate on matters
- General commoditisation of legal services, many firms are able to do much of the work clients need

## Diversity and inclusion

Despite an increased emphasis on diversity and inclusion (D&I) in the legal industry over the past decade, the legal profession remains one of the least diverse industries. According to a 2019 PwC Law firm Survey, more law firms appear to be addressing diversity and inclusion issues; however, there is still work to be done to address the underrepresentation of certain groups in leadership positions. The graph shows areas where law firms in the UK have strategies in place to address diversity issues.

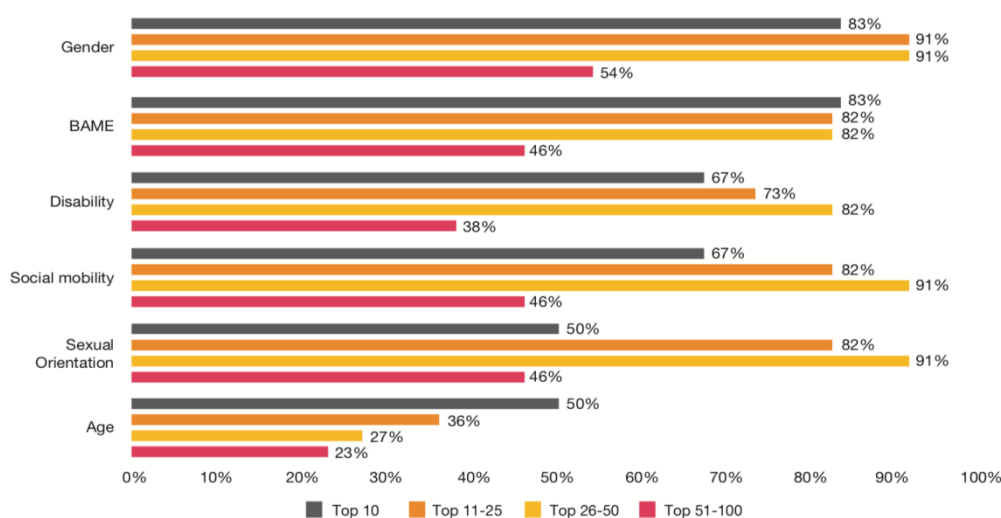


Exhibit 7. Areas where law firms in the UK have strategies in place to address diversity issues  
(PwC Law Firms' Survey 2019)

Note: Clients increasingly focus on supplier diversity in the legal industry. You have the opportunity to select providers that are aligned with your organisation's values. Legal procurement at large organisations is often an important driving force.

## Social impact and sustainability

There is a growing expectation for businesses to take a more active role in addressing societal issues. This expectation extends to include businesses in their vendor/supply chain, including law firms and other legal services providers. The majority of firms now receive requests for further information on sustainability policies or values through RFPs or RFIs.

The main points to address are: waste/consumption (paper, travel), carbon footprint, commercial tenant, policy. Clients believe the key issue firms should address (in non-COVID-19 times) is travel. COVID-19 demonstrated that outside counsel can, in fact, deliver work differently – and more sustainably.

Note: Just as with diversity and inclusion, you have the opportunity to select providers that are aligned with your organisation's values. Legal procurement at large organisations is often an important driving force.

## Industry trends

A number of trends will shape the legal industry in the coming years, including:

### DATA SECURITY

**Cyber security and data protection** are of major concern for law firms and **have dramatically increased in importance** as most law firms now rely on lawyers and staff working from their home offices due to the COVID-19 pandemic. The amount of very **sensitive data and large amounts of client money** law firms handle makes them a prime target of cyber-attacks and exposes them to compliance risks. Bad data management can

leave firms vulnerable to threats including phishing, spoofing, hacked emails, ransom ware, data breaches, and supply chain compromise. Phishing attacks are the most common, other frequent incidents include malware infection and loss or leakage of confidential information.

## PRIVACY LAWS

A number of data protection laws including the UK's Data Protection Act 2018, the General Data Protection Regulation (GDPR) 2016/679 in the European Union and the California Consumer Privacy Act (CCPA) regulate personal data. Data breaches can carry heavy penalties and law firms must take measures to eliminate the possibility of a data breach and securing confidential data.

## OUTSOURCING AND INSOURCING

Legal departments have clear preferences which work they keep in-house and what they outsource according to the ACC 2019 Global Legal Department Benchmarking Report: Contract management is almost entirely insourced, followed by invoice review, and records management. Until recently, legal used to be the only area where outsourcing (to law firm) was considered more costly than insourcing (work done in the legal department).

## DATA ANALYTICS

Legal analytics can provide law firms, legal service providers, and legal departments with information on many complex aspects of legal practice as well as the business side of law (such as pricing). Software programs allow them to collect and analyse data and to take a data-driven approach to decision-making rather than intuition or personal experience based decision-making.

## Increase your knowledge about law firms

### How do law firms make money?

Law firms try to maximise their revenues while minimising their cost base to increase their profitability. On a very basic level, law firms aim to attract first-class talent, which enables the firm to build and maintain depth and breadth of experience and expertise. This allows the firm to win high value legal work for a premium price, which enables the firm to pay its professionals handsomely. (Which allows the firm to attract first-class talent).

Traditionally, law firm revenue equals hours billed multiplied by their hourly rates (effective rate after discounts) minus any write-offs and uncollectible amounts. However, clients increasingly insist on alternative fee arrangements (see chapter above).

### What are the main cost drivers for law firms?

The two main cost drivers for law firms are people (associate and staff compensation and benefits) and space (real estate or rent). Firms incur other costs for technology, marketing, recruiting and training, equipment, bar and other membership dues, etc.

- Direct expenses are expenses related to fee earners, primarily the compensation and benefits costs of lawyers and other timekeepers.
- Indirect or overhead expenses are all other expenses of the firm, including occupancy costs, administrative and staff compensation and benefits, technology costs, recruiting expenses, business development costs, etc.



Corporate law firms are typically located in premium office spaces in the most expensive locations. It is highly likely that firms will decrease their footprint in these premium locations and will require some of their workforce (lawyers and/or staff) work remotely/from home due to their experience during COVID-19.

### What are typical law firm profit margins?

According to PwC's Law Firms' Survey 2019, global financial performance of law firms in the UK has been relatively strong<sup>[1]</sup> in 2019: 80 per cent of Top<sup>[1]</sup>10 firms grew net profit between 4 and 11 per cent and three quarters of Top 11-25 firms grew profit by between 1 and 18 per cent. Top 10 firms sourced 74 per cent of fee income and 85 per cent of profit growth from international offices. Top 10 firms have maintained their global net margin before full and fixed<sup>[1]</sup> share equity partner remuneration at 38.0 per cent. The margin of Top 11-25 firms is 33.6 per cent.

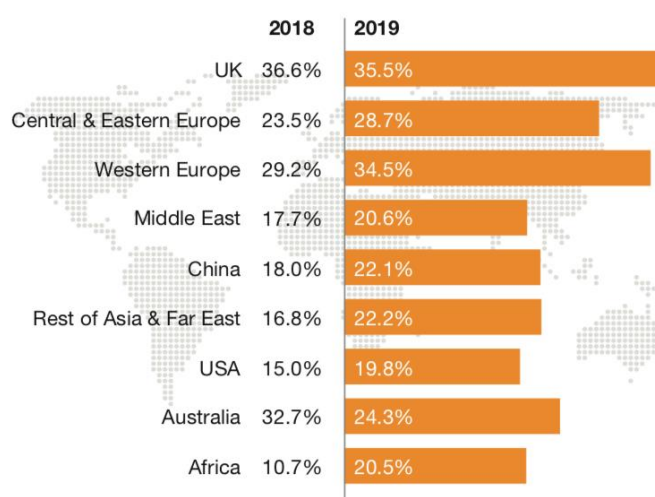


Exhibit 8. Top 10 Firms Net Profit Margins UK vs. International Regions  
(PwC Law Firms' Survey 2019)

Please note that due to the partnership structure of law firms, profit margins are not completely comparable to corporate structures that are not partnerships.

### What affects law firm profitability?

The key factors affecting law firm profitability are captured in the acronym "RULES", which stands for *Realisation, Utilisation, Leverage, Expenses* and *Speed of working capital*.

**Realisation** refers to the relationship between hours worked and hours billed, or between hours billed and hours paid. The difference is that not all worked hours can be billed, and clients do not pay all billed hours in full. For example, if a client pays GBP80 for a GBP100 invoice, the realisation rate of the invoice is 80 per cent. Average realisation rates in the legal industry have gone down since the economic downturn and today are between 82 and 85 per cent according to research by Thomson Reuters.

**Utilisation** is the relationship between available hours fee earners could work and their actual worked hours. A low utilisation rate means that timekeepers are idle. Forecastable (seasonal) and unforecastable (cyclical) fluctuations in demand for services reduce a law firm's ability to staff accordingly. This lowers

utilisation rates. Law firms often use “contract lawyers,” temporary lawyers hired on an ad-hoc basis, to bridge fluctuations in demand.

Leverage is the ratio between partners and associates/other fee earners. A low leverage means that partners will do most of the work themselves, while a high leverage means that work is pushed down to lower-cost fee earners. Leverage has been trending down over time as a result of incremental automation and outsourcing performing tasks that used to require junior lawyers and paralegals.

Expenses in law firms are mainly for people and space as mentioned above.

Speed refers to the process of billing and collecting from clients. There is a gap between the fee earner doing work and capturing time entries, another gap between capturing time and preparing pre-bills for partner review, a gap between the pre-bill review and sending the invoice to the client, and finally, there is a gap between sending the invoice and receiving payment. These gaps in time add up and have a great effect on law firm profitability.

Traditionally, law firm cash flow is uneven. While fixed costs are spread out over the year, most collections from clients take place towards the end of the year. Most law firms’ cash flow is therefore at its lowest in Q1/Q2 and the highest in Q4. To finance the ups and downs in cash flow, many firms have revolving debts with their banks. Long-term debts are usually for office expansions, investments in technology or real estate purchases as well as matter-related costs and lateral hiring.

## What is the typical law firm operating model?

For a long time, law firms followed the “pyramid” operating model. It has a high leverage (ratio of junior lawyers per partner). Firms have started to change to a new operating model: The “rocket-shaped” model has fewer junior lawyers and associates per partner. It outsources some of the legal work to law companies and LPO and automates high-volume routine tasks. Highly skilled business professionals such as project managers and legal technicians work alongside of legal professionals.

Investments in legal technology can help firms achieve important economies of scale. The marginal cost of using an existing tech solution for subsequent cases similar to the original case is near zero. Legal technology can also give firms the cost-saving efficiencies to safeguard their profitability in the face of fixed prices and mounting cost pressure.

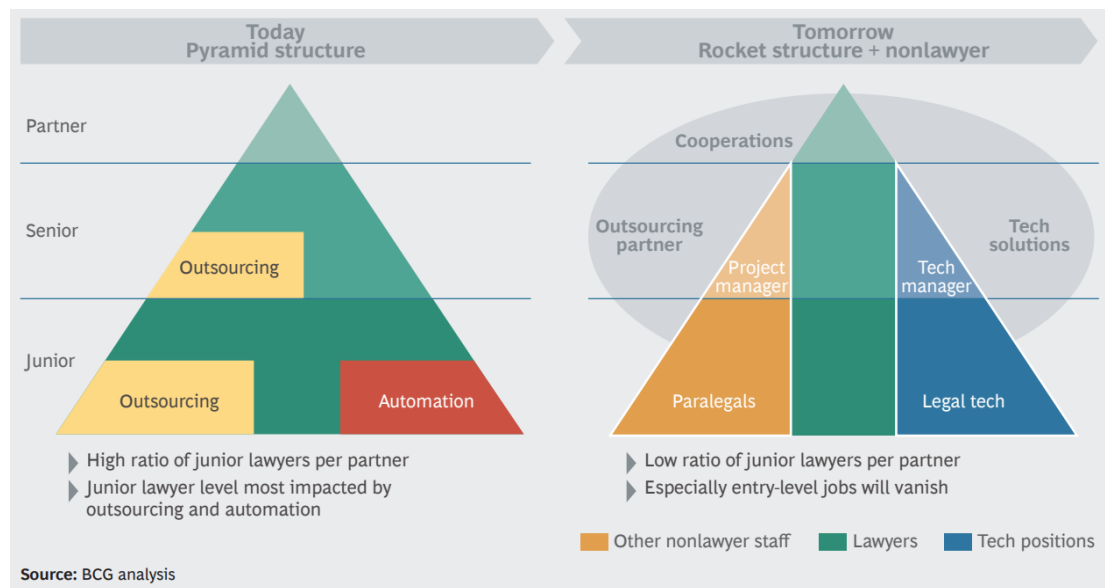


Exhibit 9. Law Firm Operating Models: Pyramid Structure And Rocket Structure  
(Bucerus/Boston Consulting Group)

## How are law firms ranked?

Law firms are ranked in different ways. The most common rankings are by:

- Revenue
- Number of lawyers
- Revenue per lawyer
- Profit per equity partner (PPP)

Many law firms serve large corporations, but the 200 largest law firms worldwide take the lion's share of this work. The UK and the United States are home to the largest law firms. The most prestigious London-headquartered multinational law firms with the largest revenues are referred to as the "Magic Circle." These firms consistently outperform most of world market on profitability. They include Allen & Overy, Clifford Chance, Freshfields Bruckhaus Deringer, Linklaters, as well as Slaughter and May. The Silver Circle is a group of leading corporate law firms also headquartered in London that has evolved significantly as the UK legal market has grown through mergers and the effects of globalisation. Below is a list of the largest UK firms by revenue.











Rank 2019	Firm	Revenue 2018/19 (£m)
1	 DLA Piper	1,946.8
2	 Clifford Chance	1,693.0
3	 Linklaters	1,628.7
4	 Allen & Overy	1,627.0
5	 Hogan Lovells	1,596.0
6	 Norton Rose Fulbright	1,501.0
7	 Freshfields Bruckhaus Deringer	1,472.0
8	 CMS	1,203.7
9	 Herbert Smith Freehills	965.7
10	 Eversheds Sutherland	895.6

Exhibit 10. Top UK Law Firms By Revenue  
(<https://www.thelawyer.com/top-200-uk-law-firms/>)

Note: For international law firm rankings, the directories “Legal 500”; “Chambers and Partners”; “IFLR” are often referenced. They list law firms by their standing among their peers and clients

## Increase your knowledge about other legal services providers

Not only clients have become bolder and better at managing legal spend and minimising costs, but in the last decade, the legal industry has changed significantly in terms of the delivery of legal services, new competitors, processes, and legal technology:

- Law companies (aka alternative legal services providers or ALSPs) have emerged. They leverage people, processes, and technology to provide services at lower cost and are now frequently used by many large organisations.
- Legal Process Outsourcing (LPO) companies are the industry’s answer to Business Process Outsourcing, using technology and an onshore or offshore workforce to further lower costs.
- Technology (referred to as Legal Tech) is now routinely used to simplify and automate many tasks, particularly high volume and routine tasks.

### Law companies (ALSPs)

Law companies, aka alternative legal service providers (ALSPs) or enterprise legal services providers perform many of the tasks traditionally done by law firms. They reduce spend per matter by leveraging people, process and technology. They are particularly cost effective for high volume, repetitive tasks, not bet-the-company events.

Law companies’ most frequently performed tasks are:

- Litigation and Investigation Support
- Legal Research



- Document Review and Coding
- eDisclosure (in the U.S.: “eDiscovery”)
- Regulatory Risk and Compliance

Law companies often offer contract lawyers for specific time-bound needs. They implement process and project management across large volumes of work or integrate technology to gain efficiency. They leverage different business models and range from small start-ups to massive companies like the Big Four accounting firms.

## Legal process outsourcing (LPOs)

Legal outsourcing aka legal process outsourcing (LPO), is business process outsourcing applied to legal services. It goes further than law companies in terms of automation and handling of high volume work.

LPOs’ most frequently performed tasks are:

- Agency work
- Document review
- Legal research and writing
- Drafting of pleadings and briefs
- Patent services

LPOs can be organized in different ways:

- Captive LPOs are law firms’ wholly-owned captive legal services units, often located in lower-cost regions.
- Independent LPOs perform legal work on behalf of corporate legal departments and law firms, often via matter- or project-based engagements.
- Managed services providers’ contract for all or part of the function of an in-house legal team, typically on-going work.
- Contract and staffing services provide lawyers on a temporary basis to companies and law firms, ranging from entry-level document review to highly skilled specialists.

## Legal technology

Legal technology or “Legal Tech” refers to the use of technology and software to provide legal services, including practice management, document storage, billing, accounting, and eDiscovery/eDisclosure. Both law firms and legal departments now employ professionals in technology-focused roles.

Currently the largest areas of spend include:

- eDisclosure & Artificial Intelligence Document Analysis
- Case and Workflow Management
- Practice & Dossier Management
- Document Management & Capture
- Document & Contract Automation
- Legal Research
- Contract Management
- Legal Spend Management
- Reporting & Analytics
- Legal Document Templates & Generation

- Virtual Data Rooms (VDR)

Artificial Intelligence (AI) technologies are just starting to impact the legal industry. AI has been proven to be most useful and profitable when fed large volumes of data (e.g. legal research archives, eDiscovery electronic stored information “ESI”), automating time-consuming formulaic tasks (e.g. screening research, filling out legal templates), and to save otherwise expensive professionals. AI is typically useful for:

eDisclosure (aka “eDiscovery” in the U.S.): It is the electronic process of identifying, collecting, and producing electronically stored information (e.g. emails, voicemail, social media, presentations, databases) in response to a request for production in a lawsuit or investigation. Advanced analytics (machine learning) reduces the time lawyers would spend sifting through electronically stored information and increases the accuracy. Technology analyses human feedback and learns what information is relevant and then locates that information. With the right training, predictive coding achieves better and more cost-effective results than traditional human-reviewed productions. In fact, some courts now prefer algorithm-reviewed productions, others even refused to accept documents produced by manual review.

Legal Research: Referencing non-word files (such as audio, pictures, etc.), using predictive analytics to filter and recommend relevant documents, and for AI-enabled virtual assistants and chatbots who perform research tasks on parity with a paralegal.

Contract Management: Automatically produce customised templates based on limited input, review documents for key and nonstandard clauses, and organise and classify volumes of contracts (such as due diligence for M&A projects).

Intellectual Property (IP) Management: It can be used in a similar way to Legal Research (see above). It is predicted that in the future, machine learning will enable the automation of the entire IP infringement detection process.

Automation & Analytics: Analysing bodies of historical legal decisions to predict the outcome of on-going litigation, enabling clients to assess the performance of their counsel by reviewing their history of outcomes, and assessing arbitrators, jury members and judges for objectivity.

Assess: To understand which aspects of AI would benefit you, ask the following questions: What aspects of AI does the solution use? What analytics methods does the solution use? How does their AI solution improve your return on investment? Also ask for a proof of concept with your data.

## Further information and next steps

For further information any aspect discussed here, including on commonly used methodologies to calculate savings for legal services; reporting of savings; definitions for savings and cost avoidance; thresholds, total cost of ownership (TCO) etc. and on legal procurement in general, please consult the Buying Legal® Council 2020 *Market Intelligence Report* [<https://www.buyinglegal.com/2020-Market-Intelligence-Report>]

## About the Buying Legal® Council

The Buying Legal® Council is the international trade organisation for professionals tasked with sourcing legal services and managing supplier relationships. Founded in September 2014, today it counts hundreds of members around the world from a wide range of industries.

Members at every stage in their career benefit from participating in the Buying Legal® Council. Joining the Buying Legal® Council enhances your professional training, gives you access to practical resources, and connects you with your peers. Members add more value to their organisations and improve their performance by learning from others and their best practices, and avoid reinventing the wheel. Our Members benefits include:

### ONBOARDING

The first 100 days in the legal category are crucial for your success. Start the right way with our programmes:

- 10 Steps to Success On-boarding Process
- Certificate Fundamentals of Legal Procurement

### CONTINUED EDUCATION

Access to the latest thinking and best practices on buying legal services and legal technology:

- Best practices webinars
- Expert and peer-to-peer roundtables

### ACCESS BEST PRACTICES

As the only organisation dedicated to buying legal services and legal technology, you can benefit from the many best practices available to you. Find solutions for your legal procurement issues and learn from the insights from your peers and experts:

- High impact “cheat sheets”
- Deep-insight primers
- Templates
- Videos and slides
- “Mini law school” Legal Lessons

### GAIN INSIGHTS

Our *Market Intelligence Report Legal* is the most comprehensive legal category report of its kind.

- Master classes and boot camps on pricing legal services
- Conference materials and slides

## ENGAGE WITH YOUR PEERS

Build your career and engage with your peers on matters that are important to you. Join our Working Groups or start your own:

- Diversity & inclusion
- Social impact & sustainability

## About The Chartered Institute of Procurement & Supply

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest professional body in this field and is the dynamic champion driving the procurement and supply management profession. It is the worldwide centre of excellence on procurement and supply management issues. CIPS has a global membership of over 70,000 in 150 different countries, including senior business people, high-ranking civil servants and leading academics.

The activities of procurement and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability.

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