

Knowing Your Business Makes the Difference

A Smarter Approach to Law Firm Procurement

Law firm operating expenses—all costs not directly attributed to compensation and benefits—represent approximately 20 percent of total revenue.

That encompasses everything from legal research and IT, down to couriers and office supplies. Between 60 percent and 80 percent of operating expenses are considered “sourceable”¹, and thus present opportunities for law firms to find considerable savings through a smart, customized Business Intelligence (“BI”) effort.

Fortunately, new software platforms and consulting services allow law firms to codify, track and compare expenses in a fast, intuitive and graphical way. Business Intelligence has the power to dramatically reduce all non-compensation costs for law firms and help manage their business in a fashion analogous to their most sophisticated corporate clients.

The concept of Business Intelligence—the systematic organization and improvement of data to identify opportunities—has been around for decades. Until now, law firms have been at a decided disadvantage, limited by narrow analytical capabilities and marketplace solutions that weren’t the “right fit”. The relative size of the industry itself left law firms without effective, affordable BI solutions. Even at firms large enough to maintain dedicated procurement and sourcing departments, the legal sector lacked tailored enabling technologies and analytical tools, and was left to rely on third-party and ad-hoc information.

Suppliers, of course, have a vested interest in maintaining the status quo and not providing specific and uniform digital data formats to their customers. Law firms, with their ad hoc purchasing practices, have long been ideal customers in this regard. Suppliers traditionally provide data as raw numbers, giving little insight into spending patterns and actionable information.



Visualizing Data in New Ways

The lynchpin of Business Intelligence is the ability to interact with data in new ways and analyze information from all angles. The first step in a new Business Intelligence program is gathering comprehensive data and sorting it into a series of modules. A spend analysis module, for example, pulls together all the accounts payable data for the firm. This includes being able to view spend by supplier, category, region, office, department and many other dimensions. Other modules may cover legal research, office supplies and courier, travel, e-discovery, IT, wireless, and other high-spend areas. The modules create a repository for all relevant data, which in turn can be easily graphed or charted in any number of variations.

Imagine being able to quickly see that a particular office was spending more on an FTE or per-attorney basis than others across the firm. A user could drill down and determine that this office was buying an off-contract product from a non-preferred supplier. The enabling technology makes identifying the problem and finding a solution a much simpler process than was previously possible.

Historically, suppliers have taken the lead in data presentation and, unsurprisingly, their PowerPoint presentations tend to present information in a self-serving fashion. Effective Business Intelligence allows law firms to participate in supplier dialogs with a wealth of data at their fingertips to better represent their own interests.

Mobile technology allows firms to share and re-contextualize information in real-time. Disparate data is consolidated into a single format that can be accessed and graphed from any mobile device. That’s not just a powerful way to make a point; it’s an invitation to meaningful collaboration.



Figure 1 Example of a Business Intelligence solution

¹ Recurring operating and capital expenditures that sourcing and procurement professionals believe can be influenced to drive value via reduced cost, risk mitigation and/or process efficiencies.

Such technology enables users to share and interact with graphical data from their desktops, laptops or tablets, empowering them to find creative solutions much faster. Rather than working through a lengthy series of meetings, representatives from various offices and departments can collaborate quickly and effectively, a significant work-effort cost savings in itself.

Deep Experience Provides Accurate Context



Figure 2 Example of mobile BI capabilities

Software solutions are only as effective as the expertise and market savvy of the user, so law firms must train or retain people who have a comprehensive understanding of the legal sector if their BI efforts are to be fruitful.

Most law firms have decentralized management, a fragmented supplier base, limited audit and compliance measures, and a dearth of central contract repositories—all of which complicate even the most straightforward purchases. It's important that sourcing staff or outside BI experts understand the realities of law firms, and work within them to better capture and harmonize data.

The most important quality for law firms to seek out in staffing their BI program is market intelligence, the experience and perspective required to accurately contextualize data. Experienced professionals know precisely what information to request from suppliers, how to enrich that data and how to translate it into new opportunities based on purchasing patterns. They know market rates and can easily spot outliers. When a supplier changes a reporting structure for their benefit, experienced BI staff identifies it and helps the firm counter. Industry-specific experience behind a Business Intelligence platform is essential in enabling clients to maximize use of the software.

Return on Investment

Operating expenses are a fact of any enterprise, but with effective Business Intelligence programs law firms can rest assured that they always have accuracy, compliance, and a better vantage point into their own data. The supplier relationship is stronger and staff members are not burdened by repetitive tasks, but instead, can engage in a more creative and fruitful collaboration to source goods and services.

Law firms that have deployed successful business intelligence solutions have realized an ROI in excess of 200 percent. Some of the many metrics firms can use to measure these benefits include:

- **Speed to Savings** — dramatically cut the time needed to prepare for supplier negotiations, develop RFP's, and track benefits by having the necessary data and analytics consistently updated and at your fingertips
- **Demand management** — frequently looking for opportunities to move to lower cost of products and services or consolidate similar products and leverage your buying power
- **Contract management and key terms tracking** — the ability to track rebates, measure tiered pricing, manage contract minimums and annual price increases, and be prepared ahead of expiration/renewals
- **Line Item audits and pricing compliance** — tracking compliance against negotiated pricing and contract lists as well as identification of off-contract and rogue spend
- **Savings and budget tracking** — measurement against negotiated pricing, expectations and set budgets
- **Office benchmarking** — recognize and promote best practices, identify rogue spending behaviors, and utilize preferred supplier relationships
- **Market Intelligence** — utilizing internal or third-party resources to determine where a firm stands compared to the industry and recent trends

Customized Solutions

Firms have varying needs and expectations for Business Intelligence. Some may want the software and related training for their internal procurement staff, while others may want help with data collection and ongoing assistance with analytics. Still others want to outsource the bulk of the procurement function. In any event, customized, scalable solutions are becoming available.

As client expectations change over time, Business Intelligence functionality adapts and expands. Once a law firm starts digging into aggregated data and experimenting with the software tools, staff may find unexpected information or new uses for data. Because the software is extraordinarily flexible, it allows analysis to evolve along with the marketplace and the changing needs of the firm.

The hardest part of the experience to measure is the intangible time-saving benefit. Historically, it could take law firms days or weeks to gather the baseline data for an RFP. With effective Business Intelligence, that data is already available, and with effective accumulation it grows more refined. As staff members become more experienced using the platform, their efficiency and effectiveness will grow over time—a return in addition to the cost savings gained from better terms with suppliers.

Practical and affordable Business Intelligence was previously out of reach for law firms, but with software and support services now available, firms can realize the efficiencies and savings their corporate clients have enjoyed for years.

The Benefits of BI for All Parts of the Firm

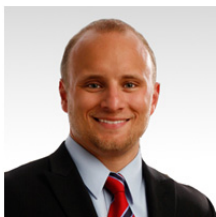
For the Buyer – Constant identification of opportunities, effectively manage contract items and supplier lists, quickly collaborate and respond to supplier and end user demands

For the Procurement Director – Collaborate and monitor performance of departments against goals, access to robust analytics for major vendor contracts and negotiations, prepare for budget discussions and annual planning cycles, determine how to resource and plan for negotiation cycles

For the C-Level and Regional Office Leadership – Singular location to track all expenses at the firm and local level, monitor savings targets, identify rogue spend, facilitate budgeting and monitor audit and compliance

For the Partner – Piece of mind that your finance, procurement, and operations teams have the tools to support the services provided by the firm at the lowest cost

Meet the Author | Scott Springer



Scott is a director in the Global Strategic Sourcing and Business Operations Practice at HBR Consulting. He has extensive experience in providing procurement solutions, strategic sourcing and merger integration support services to U.S. and European clients across multiple industries including legal, healthcare, and services related firms.

Scott has led numerous comprehensive cost reduction and sourcing engagements and has experience delivering measurable bottom-line results to clients by leveraging proven expense reduction strategies, enhancing the use of technology and developing custom reporting solutions. His work includes various areas of expertise such as: business intelligence, custom reporting and analytical solutions, litigation support services, information technology hardware & software, and healthcare group purchasing due diligence and integration.