BUYING LEGAL



2018 BUYING LEGAL SERVICES SURVEY

Legal procurement is no longer an unchartered territory: Following top management's mandate to not only reduce spend but to also drive more value from law firms and legal services providers, by increasing the quality of work within legal spend, procurement has clearly demonstrated its own value contribution. The majority of legal spend is now under (some) review and active spend management. A relationship-only business approach to buying - and selling - legal services is now a small minority among the largest spenders. It is replaced by a professional, business-driven approach to sourcing.

After early wins, there are still many opportunities for legal procurement professionals to create value to help save their employers money. Best practices are clear and common. It is not just about savings. Legal procurement can drive work to providers that deliver a better outcome, higher response, and savings.

For firms, the pressure is on now more than ever. Clients continue to reduce the number of firms they work with. React now or watch your competitors win lead positions with clients you took for granted. It is both a threat and opportunity for the legal community. Winners will respond and deliver better results at lower costs.

It's a time of dynamic change in the legal market. Thanks to the hard work of many, we now have a roadmap to a better future.

The themes of this year's Survey are:

- Procurement's impact and value realized
- Confidence and partnership between procurement and law departments deliver results
- No looking back as the market for legal services gets defined by metrics, annual commitments to improvement, and continued education

We would like to thank the following professionals for their work and support, their invaluable input and thoughts on this research:

Jennifer Dezso Martin Harlow, GSK Anja Jähnel, Bayer Alan Bryan, Walmart Vincent Cordo, Royal Dutch Shell

Adrienne Fox, Novartis Matt Rossman, XL Catlin Martin de Grijp, ABB Susan O'Brien, Bank of America

Heather McClow, Boeing Jo Ellen Hatfield, Bunge Olivia Knight, Credit Suisse Dr. Orazio Difruscolo Laura Doyle, Royal Bank of Scotland

We welcome your feedback!

Simone Claudia Dr. Silvia Hodges

Rebecca Bell

Dr. Lena Campagna

Silverstein



"This year's survey results really hit the mark in terms of assessing current strategies, trends and techniques. These invaluable insights allow our Buying Legal Council members to gauge their own progress against the best in our profession. I encourage members to use this information when developing spend management strategies in collaboration with their respective Legal departments."

(Marty Harlow)

"The report sets a strong tone on best practices, helps in identifying productivity improvement opportunities, and is a great reference for the legal operations practitioner and wider teams involved in buying legal services and creating even more value for their stakeholders." (Martin de Grijp)

"This survey really highlights to me the necessity of cultivating deep relationships with your stakeholders, both in legal and legal operations, in order to deliver benefits fully in the category. It is great to see that legal procurement professionals have been able to use these relationships to deliver increased savings to their organisations over the past year." (Laura Doyle)

"The Buying Legal Council's Legal Procurement Survey confirmed what I had long suspected. Corporate legal departments and procurement functions across industries continue to mature and refine the way they do business. The increased use of AFAs, RFPs, and other data-driven decision making tools is evident, and there is no doubt this trend will continue. The Survey proves that we are in the midst of an evolution in the way legal services are purchased. Ultimately, that will positively affect how they are delivered." (Alan Bryan)

"I commend the Buying Legal Council for its efforts to tackle unchartered territory within the category of legal services sourcing & procurement. The survey findings, combined with the education, networking opportunities and passion of Buying Legal Council's staff and the organization members (corporate, suppliers and law firms) are driving much needed change to the legal industry. The results are telling for where progress had been made and where more action or growth is needed. Overall, it is clear that the key findings and top goals of legal procurement align. With increased diligence in the key areas of relationship development (internal and external with law firms/service providers), gaining insights from enhanced legal spend analytics and ongoing Legal Project Management, inclusive of pre-matter scoping, progress can occur for the category. With agreement to focus on & partner for continuous improvements in these key areas, legal procurement professionals and legal departments can achieve great things working together. The culture of the legal industry is an important factor to consider here when working towards progress in the legal category and how long it takes to make change. The survey highlights that tenure is a key, so while some quick-hits with low-hanging fruit may be possible, the real value stories and savings with come later on, once relationships with high levels of trust are in place. This is true not only of internal relationships, but also of those with firms and service providers. I foresee that improving firm and supplier relationships may become a top goal cited in future surveys. When investment is made here, performance, quality & value of service, willingness to partner more on price and innovative thinking can be enabled." (Adrienne Fox)

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METHODOLOGY

The purpose of this study was to examine the purchasing behavior of legal procurement professionals. This research aimed at gaining a deeper understanding of their motivations, approaches, and tools.

The survey was completed by 153 legal procurement professionals and comprised 33 mostly multiple-choice questions and focused on purchasing decisions, cost control, analyses, and trends. Demographic questions were included as part of the survey and areas warranting further research were derived from the findings from past surveys, namely the 2017 Legal Procurement Survey as well as previous Legal Procurement Surveys from 2011, 2012, 2014, and 2016.

The 2018 study was conducted from mid-December 2017 through early February 2018. Links to the survey were sent to a list of legal procurement professionals by email and posted to LinkedIn procurement groups.

Please note that all findings should be seen as indicative, showing trends rather than absolute, representative data due to the sample size in a (still) unknown universe of Legal Procurement professionals. Therefore, this analysis is not immune to the effects of random sampling, and different mixes of survey participants across various surveys.

EXECUTIVE SUMMARY

- With procurement's involvement, companies save 14.6 percent of legal spend. When procurement is well aligned and works in partnership with the in-house law department, companies save 21 percent on average. For a large company incurring legal fees at 1 percent of revenues, this translates into millions of dollars of incremental earnings.
- Now is the time to being the legal procurement journey. It takes time to drive value: Quick stints in the legal category are insufficient. Legal procurement professionals contribute the most after five years of buying legal services.
- The procurement professionals' job is multifaceted. Procurement professionals negotiate discounts, issue RFPs and outside counsel billing guidelines, establish panels and lists of professional provisions, require eBilling, negotiate fee arrangements, and apply a tool chest of process improvements.
- The top 2018 legal procurement goals are (better) capturing and analyzing spend data and reducing legal spend.

KEY BENCHMARKS

SAVINGS: 14.6 PERCENT AND MORE

PROCUREMENT SUCCESSFULLY BRINGS DOWN LEGAL SPEND. BIG SAVINGS COME FROM TENURE IN THE CATEGORY AND GOOD RELATIONSHIPS WITH LEGAL.

While price may not always be the decisive argument for legal services, procurement's ability to reduce spending remains an integral benchmark to measure its success. Our survey findings suggest that legal procurement is very successful in reducing spend and saves employers significant amounts of money. These reductions or cost avoidances translate into significant savings per share.

On average, legal procurement professionals were able to save their employers 14.6 percent of the total legal spend, up from an average of 11.4 percent in 2017. For 2018, procurement claims a 16.9 percent reduction in legal costs, which means savings are up six percent in the last two years.

The most successful legal procurement professionals saved their employers 20.8 percent on average. Last year, this number was 23.3 percent. The highest reported savings achieved were 57 percent. The least successful groups ("below average success" and "not successful") were only able to achieve 4.8 percent and 5.3 percent of savings in 2018, compared to 8.9 percent last year.

TENURE

The biggest factor is time: Tenure in the legal category has significant effects on what procurement can achieve. Those with 10+ years in legal procurement on average achieved 19 percent in savings. Those with five to nine years in the legal category saved 15 percent on average, while those with two to four years achieved 13 percent on average. Interestingly, those with one year or less in legal procurement were able to save 15 percent. It may suggest that some significant quick wins are achievable through applying procurement tools. Once the "low hanging fruit" have been picked, a deeper understanding of the category may be necessary to continue to achieve large savings.

RELATIONSHIPS

Big savings are also more likely when inhouse counsel and procurement have a good relationship, as a it was a clear savings. Procurement indicator for professionals describing the relationship with their colleagues in the law department as "partners" were able to achieve 21 percent in savings on average. Those describing the relationship with in-house counsel as "collegial" saved 15 percent on average, while those with "reluctant" relationships saved only 7 percent on average. Those with non-existing relationships ("What relationship?") on average saved 9 percent.

While not quite to the same extent, alignment with their colleagues in legal operations ("legal ops") is important to guarantee success for their employer. Those describing the relationship

with legal ops as "partners" were able to achieve 17 percent in savings on average, those with "collegial" relationships with legal ops saved 14 percent on average, while those with "reluctant" relationships still managed to save 10 percent on average. (See section "PROCUREMENT, LEGAL & OPS ARE WARMING UP TO EACH OTHER" for more information.)

It takes time to build relationships between the internal departments, to build trust, and to know what is working for their organization. We expect that the learning curve will pick up for this area in the not very distant future.

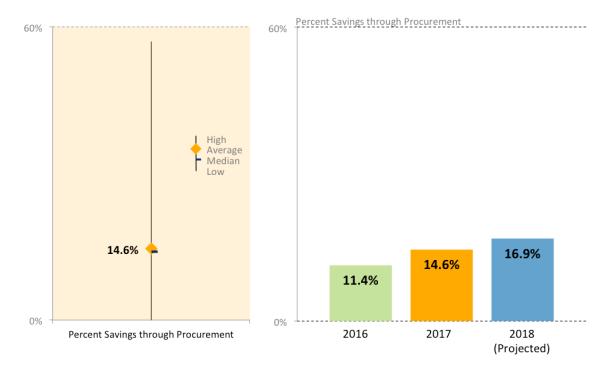
SIZE OF THE ORGANIZATION

Legal procurement in the largest companies (with \$25B in revenue or more, so-called "Fortune 100" companies and international equivalents), saved on average 15.6 percent of spend, which translates into \$16M of savings annually. They were outdone only by companies with less than \$500M in revenues: here, procurement was able to save 19 percent on average, which translated into \$800K of savings annually.

Companies with \$4.1B-\$25B in revenue (size-wise classified as "Fortune 500" companies and international equivalents) on average saved 14.3 percent of legal spend, translating into \$13M of savings annually.

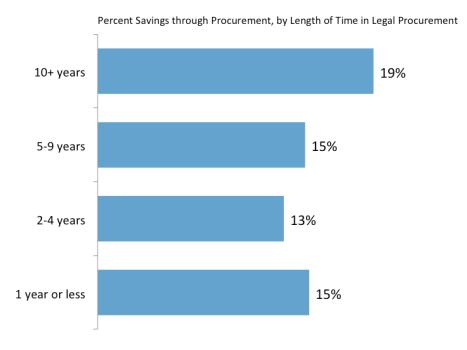
SAVINGS THROUGH PROCUREMENT STEADILY INCREASES

How much, as a percent of total spending with legal services providers, do you believe your efforts have helped save the organization in the last year? What will be your goal, in terms of cost savings as a percent of total spending with legal services providers, for 2018?



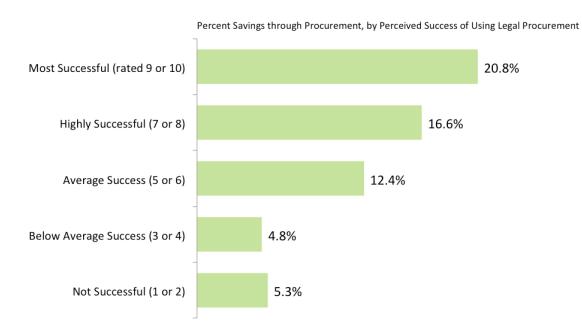
BIG SAVINGS COME FROM EXPERIENCE

How much, as a percent of total spending with legal services providers, do you believe your efforts have helped save the organization in the last year? How long have you been working in legal procurement?



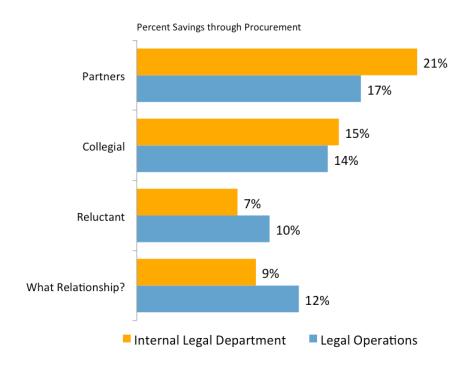
PERCEPTIONS OF SUCCESS DIRECTLY TIED TO AMOUNT OF SAVINGS

How much, as a percent of total spending with legal services providers, do you believe your efforts have helped save the organization in the last year? How successful do you believe your company is at using legal procurement to drive and receive value from law firms and legal services suppliers?



BETTER INTERNAL RELATIONSHIPS DRIVE HIGHER SAVINGS

How much, as a percent of total spending with legal services providers, do you believe your efforts have helped save the organization in the last year? At your organization, how would you describe the relationship between legal procurement and internal groups?



LEGAL SPEND: FIVE TIMES MORE ON TRADITIONAL FIRMS THAN OTHER PROVIDERS

THE LARGER THE ORGANIZATION, THE MORE IT SPENDS ON LEGAL SERVICES. ALTERNATIVE LEGAL SERVICES PROVIDERS ARE NOT (YET?) EMBRACED BY ALL ORGANIZATIONS.

On average, organizations spend over five times more with traditional firms than other types of legal services providers: Survey respondents spent \$113 million annually with traditional law firms, \$5.5 million with alternative legal services providers and \$15 million with ancillary legal services providers.

As would be expected, annual spend increased with the size of the organization: the larger the organization, the more it spent on legal services from traditional law firms. The same was true for ancillary legal

services, which tended to increase with the size of the organization.

The spend with alternative legal services providers showed a different picture: The smallest organizations in our sample –those with \$26 million to \$500 million in revenues– spent a disproportionate amount on alternative legal services providers: 73 percent of their budget for legal services was spent on traditional law firms (\$6.75 million) and 27 percent of their budget (\$2.5 million) on alternative legal services providers.

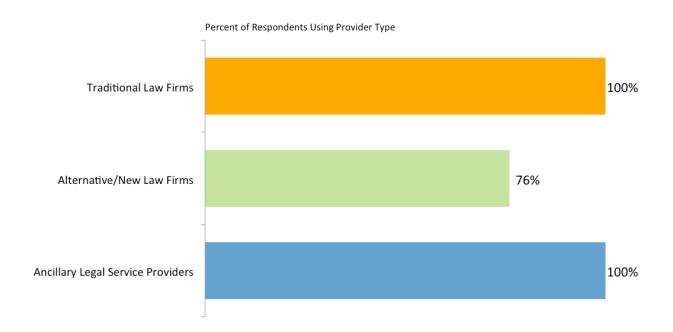
The largest organizations in our sample (size-wise "Fortune 100" companies and their international equivalents) comparatively considerably less of their legal budget on alternative legal services providers: 82 percent (\$152 million) of their \$185 million overall legal budget went traditional law firms, 13 percent (\$24 million) to ancillary legal services providers, and only 5 percent (\$9 million) went to alternative legal services providers. And even starker contrast show companies with revenues between \$1.7 and \$4 billion revenues: Of their overall legal budget of \$96 million, they spend 93 percent (\$89 million) on traditional law firms, 4 percent (4 million) on ancillary legal services providers, and 3 percent (\$3 million) on alternative legal services providers.

This may suggest that smaller organizations have started to embrace alternative firms (sometimes referred to as "New Law") while larger companies conduct a lot of the work in-house and tend to work with traditional firms for other legal services. The findings also suggest a potential area of growth for alternative legal services providers among the largest organizations.

It should be noted that alternative firms had embraced by not (vet) been all organizations in our survey. While all have used traditional law firms as well as ancillary legal services providers, 24 percent have not used alternative firms in the past.

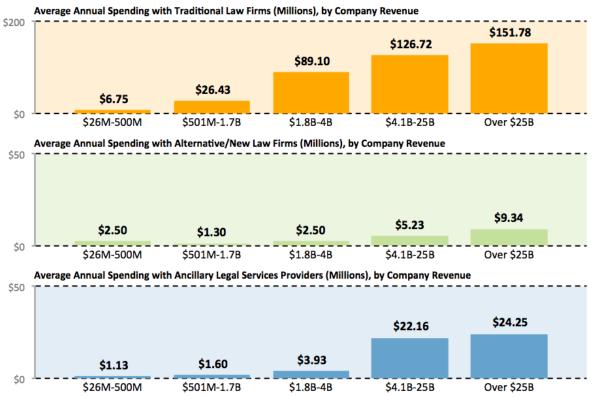
RESPONDENTS USE MULTIPLE TYPES OF LEGAL SERVICES PROVIDERS

What is your involvement when it comes to hiring legal service providers for your organization's legal needs?



SPENDING BENCHMARKS BY COMPANY REVENUE BRACKETS

On average, how much does your organization spend annually (worldwide) on outside legal services (in USD)?



Note: Companies with less than \$25M in annual revenue did not provide spending data

NUMBER PROVIDERS: HOW MANY FIRMS ARE TOO MANY?

ORGANIZATIONS WORK WITH FEWER AND FEWER PROVIDERS. BUT SOME SAY, THEY STILL WORK WITH TOO MANY.

Last the number year, one legal procurement goal was to reduce the number of preferred providers. This year, it came in as the sixth most important goal (See section "TOP GOALS: BETTER CAPTURE & ANALYZE DATA" for more information.) This may suggest that organizations were able to complete this task in the meantime. Many headlines in the legal press about big companies' panels tell the story about smaller corporate panels and the findings in our survey confirm this.

Major culling has been going on as the average number of "traditional" law firms instructed plummeted from an average of 362 firms last year to 149 this year. Similarly, the median number of "traditional" law firms decreased from 200 last year to 100 this year. While this is a significant reduction in the number of regularly instructed firms, it is still a large number of firms to manage. Working with many firms also prevents clients from using their purchasing power, may lead to administrative inefficiencies, and thwarts the chance for both sides to develop

deeper strategic relationships. This is without a doubt, an area that large organizations may want to monitor and manage.

What's more, the highest number of "regularly" instructed firms last year was reported as 1,500. This year, the highest number was a much lower 900 traditional firms. Again, this is clearly a result from bringing procurement discipline to legal services.

The largest organizations ("Fortune 100" companies and international equivalents) appear to have done the most work in this area: Despite their proportionally much larger spend, on average, they regularly instruct 184 firms. The second largest organizations ("Fortune 500" companies and international equivalents) surpass them with 192 regularly instructed firms.

ALTERNATIVES GAINING TRACTION

While alternative firms appear to still not having reached full mainstream status among the largest organizations ("Fortune 100" companies and international equivalents), alternative firms are gaining traction: On average, companies worked with four "alternative" firms last year (median: two alternative firms). This year, the number went up to six alternative firms (median of three alternative firms). We believe there is a lot of growth potential for alternative firms, particularly among the largest buyers of legal services.

Interestingly, we found that the smallest organizations in our research regularly hire four alternative firms - a disproportionally higher number than one might expect. It is

possible that these smaller organizations with their relatively lower budgets for legal services appreciate the typically very competitively priced services of alternative firms as a true alternative to traditional firms.

ANCILLARY LEGAL SERVICES

While clients still work with a large number of traditional law firms, they are using much smaller numbers of ancillary legal services providers: On average, clients regularly instruct 25 ancillary legal services providers. The largest organizations in our survey ("Fortune 100" companies international equivalents) top the list with 48 ancillary legal services providers on average.

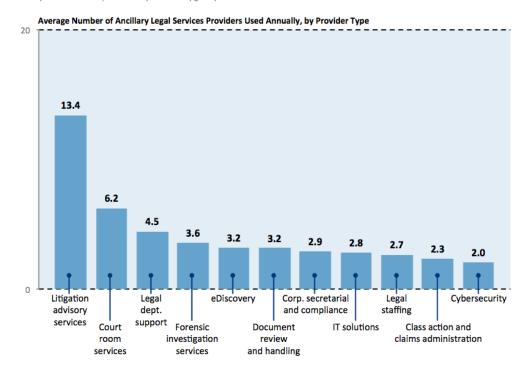
Clients use the largest number of litigation advisory firms (an average of 13 providers), followed by courtroom services (six providers), law department support as well as forensic investigation services (both four providers each). eDiscovery shows similarly low numbers of providers (four providers, up from three last year), suggesting a rather disciplined procurement approach.

Clients regularly instruct three companies for document review and handling. Similar numbers were reported for corporate secretarial and compliance work (three), IT solutions (three), legal staffing (three), class action and claims administration (two), and cyber security (two).

These low numbers of providers may suggest that clients have carefully selected key ancillary legal services provider with whom they maintain strategic relationships.

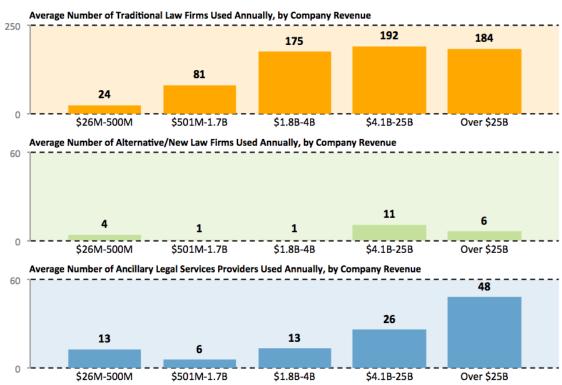
LITIGATION ADVISORY FIRMS MOST UTILIZED ANCILLARY PROVIDER

How many firms and service providers do you use in any given year?



NUMBER OF PROVIDERS BY COMPANY REVENUE BRACKETS

How many firms and service providers do you use in any given year?



Note: Companies with less than \$25M in annual revenue did not provide utilization data

PROCUREMENT TOOLS & TACTICS

EVERYONE NEGOTIATES DISCOUNTS & ISSUES RFPS

PROCUREMENT TOOLS USED ARE BECOMING MORE SOPHISTICATED AND INCREASINGLY ANALYTICAL.

Almost every client negotiates discounts and legal procurement professionals are typically in charge of it: The vast majority percent) of survey respondents negotiate discounts with legal services providers on behalf of their employer. An additional eight percent plan to use this tactic. As a legal procurement professional expressed it: "Who still pays sticker price?"

Also very common legal procurement activities include issuing RFPs, developing sourcing and purchasing strategies for legal services, as well as issuing and enforcing outside counsel billing guidelines.

Seventy-six percent of survey respondents already issue requests for proposal (RFPs), another 17 percent plan to do so. This suggests that RFPs have become the standard way to choose legal services providers. Clients increasingly use webbased legal RFP platforms.¹

Seventy-five percent of survey respondents develop sourcing and purchasing strategies for legal services, and 18 percent plan to do it. Again, this suggests that fewer and fewer (large) clients leave legal services unmanaged.

Seventy-four percent issue and enforce outside counsel billing guidelines, and an additional 18 percent plan to issue and enforce them. This suggests that legal procurement has started to become a more mature and increasingly professionally managed, category.

The establishment of panels or a preferred list of vendors is also quickly becoming a common tool. Seventy-two percent of organizations currently are panels/preferred provider lists and 25 percent are planning to use them in the future. This leaves few clients without established panels/lists, and more firms risking the possibility of losing longstanding clients in the next round of panel formations.

eBilling is on the rise as well, 69 percent are currently using it, another 22 percent are planning to use it in the future.

Similarly, negotiating alternative arrangements (AFAs) is currently used by 65 percent of survey respondents and another 31 percent are planning to use it.

Sixty-three percent presently conduct data analytics, and a third (33 percent) are planning to use it in the future.

Those longer in procurement for five or more years are more likely to eAuctions, require eBilling, use legal project management, and conduct data analytics than those newer to the legal category. As shown before, time appears to drive success (see section "IT TAKES FIVE

¹ The Buying Legal Council recently conducted a vendor showcase of different web-based legal RFP platforms. It is available on www.buyinglegal.com/formembers

YEARS TO MASTER THE CATEGORY" for more information). Going through the stages, procurement professionals learn what works well and what does not.

AREAS OF MOST GROWTH

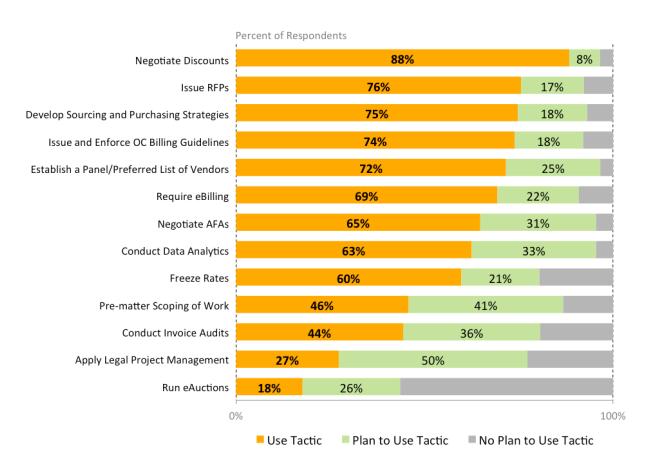
We expect to see the most growth in the areas of legal project management: While only 27 percent are currently using legal project management, 50 percent are planning to use it in the future. Likewise, pre-matter scoping of work is currently used by less than half of survey respondents (46 percent), but 41 percent are planning to employ it in the future.

Also, in an up-trend is conducting invoice audits – 44 percent currently audit invoices, but 36 percent plan to do so.

Sixty percent freeze their firms' rates, and another 21 percent are planning to do so.

Similar to last year, running eAuctions was the least commonly used legal procurement activity, although their popularity is increasing: 18 percent of survey respondents currently use eAuctions (up from 14 percent last year), and an additional 26 percent are planning to use them in the future.

It is clear that with the help of legal procurement the sourcing of legal, alternative and ancillary legal services is quickly moving from largely unmanaged or "passively" managed (see APPENDIX for more information) to an actively managed category of spend. Legal procurement is doing its job and earning its seat at the table.



AFAS & PRE-MATTER SCOPING DRIVE THE MOST VALUE

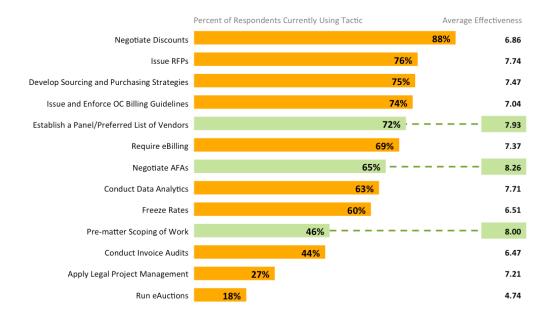
Legal procurement professionals negotiating alternative fee arrangements (AFAs), pre-matter scoping of work, and establishing panels/preferred provider lists as the most valuable procurement tactics. Also deemed effective are issuing RFPs and conducting data analytics. Negotiating discounts (a tactic almost every client uses today - see "EVERYONE NEGOTIATES DISCOUNTS & ISSUES RFPS), only comes in tenth in terms of effectiveness.

As we found last year (see the 2017 Legal Procurement Survey), clients appear to now have truly embraced AFAs. They have become mainstream and perhaps should now be addressed as "appropriate" fee arrangements, rather than "alternative" fee arrangements.

While not yet widely used, pre-matter scoping is quickly becoming more popular: It is an early stage conversation between the client and her lawyer about important background information on a matter (e.g., business objectives, timing, etc.), key issues likely to arise, and the scope of work to be undertaken by the law firm. Firms are advised to develop skills in this area and to work with their clients on detailed plans, establishing scenarios and forecasting budgets.

Panels of preferred providers are typically deemed very effective and are very widely used today. We expect most corporate clients to have panels established at this point.

Opinions appear to be divided about eAuctions: While more survey respondents than last year report using them and there is considerable interest in them, eAuctions came in last place of tactics able to drive value from legal services providers. We will keep monitoring if eAuctions become a common way to select firms or if they peripheral element procurement activity, only used for certain types of work or levels of risk.



PROCUREMENT GOALS & PREFERENCES

TOP GOALS: BETTER CAPTURE & ANALYZE DATA

PROCUREMENT GOALS SHOW THE INCREASED SOPHISTICATION AND REFINEMENT. ANALYTICS CONTINUE TO BE ON THE RISE.

According to our survey findings the top five goals for most legal procurement professionals this year are:

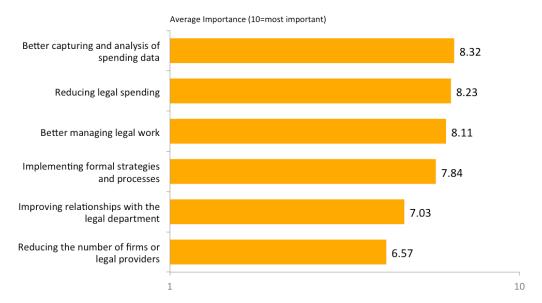
- (1) Better capturing and analyzing spend data
- (2) (Further) reducing legal spending
- (3) Better management of legal work
- (4) Implementing formal strategies and processes
- (5) Improving relationships with the law department

The focus on better capturing and analysis of spending data as well as the intention to better manage legal work is a further confirmation that legal procurement is quickly maturing and becoming more advanced: the industry is moving into Level 4 management of the category.

While "reducing legal spend" only reached sixth place in last year's survey, this year it was in second place. We believe that while most clients negotiate discounts (see section "EVERYONE **NEGOTIATES** DISCOUNTS & ISSUES RFPS), the approach to reducing legal spend is becoming more strategic and sophisticated. It will be increasingly common to have implemented formal strategies and processes, and procurement will use the entire range of legal spend management approaches (see also APPENDIX). It will be about better managing work, about avoiding expenses and unnecessary work to achieve "doing less for less."

BETTER ANALYTICS AND REDUCING SPENDING TOP LIST OF GOALS FOR PROCUREMENT PROFESSIONALS IN 2018

On a scale of 1 to 10, with 10 being the most important, how important are each of the following goals to you in 2018?



EXPERIENCE TRUMPS FAMILIARTY. PREDICTABILITY IS MORE IMPORTANT THAN LOW FEES, UNLESS IT IS FOR ROUTINE WORK.

Good news for matter experts, but no resting on laurels for incumbents: When comparing legal services providers, procurement's preferences are clear: Legal procurement professionals "experience with similar matters" for all risk levels - from high-risk/bet-the-farm type of work to complex, significant work to routine/commodity work. This year's results mirrored last year's survey findings, where "matter knowledge/expertise" highest as well.

While matter experience was important for all types of work, it was particularly important for high-risk work: 74 percent of survey respondents gave it preference over "familiarity with our organization" and "industry understanding and experience." Procurement values matter experience 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).

The results suggest that clients are increasingly willing to experiment with new firms who are able to demonstrate the relevant expertise. The importance of matter expertise gives challenger firms the hope and confidence to try winning new business. At the same time, it may be a wake-up call for incumbent firms. Counting on established relationships may prove to be a dangerous approach to business development.

The results were less conclusive for routine, commodity work: Thirty-seven percent favored "experience with similar matters," 35 percent preferred "industry understanding and experience," and 28 percent chose "familiarity with your organization."

PREDICTABILITY WINS

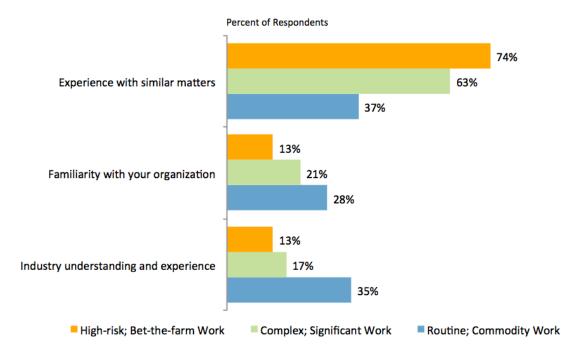
We also wanted to know procurement's preference in terms of predictability, efficiency or low fees. What is more important to them? Again, we probed if the answer differed for high-risk/bet-the-farm type of work, complex, significant work, and routine, commodity work.

The results were clear: Predictability was the number one choice for both high-risk/bet-the-farm work (55 percent) and complex, significant work (54 percent). It was followed by efficiency (43 percent for both high-risk/bet-the-farm work and complex, significant work). Only 2 percent of survey respondents preferred "low fees" for high-risk/bet-the-farm and 3 percent preferred "low fees" for complex, significant work.

Routine, commodity work showed a very different picture: 45 percent of survey respondents favored "low fees" as the most important factor, followed by "efficiency" (29 percent), and "predictability" (26 percent).

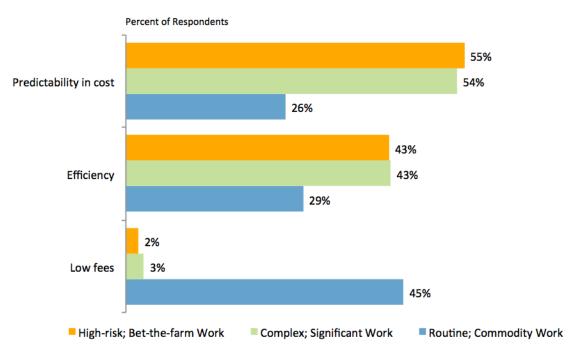
AS RISK INCREASES, PAST EXPERIENCE OF LEGAL SERVICE PROVIDER BECOMES MORE IMPORTANT

Looking at different risk levels, which factor is most critical when deciding which legal services providers to select for:



PREDICTABILITY AND EFFICIENCY MORE IMPORTANT THAN LOW FEES AS RISK OF LEGAL WORK INCREASES

Which of these new factors is most critical when deciding which legal services providers to select for:



FAVORITE VALUE ADD: FREE HOTLINES

CLIENTS DO NOT WANT TO BE CHARGED FOR EVERYTHING, ALL THE TIME. INSTALL A HOTLINE FOR QUICK QUESTIONS. DO NOT CHARGE FOR IT.

To attract and keep clients, firms offer clients a variety of "value add" activities. We wanted to know which ones clients really appreciated. Our findings suggest that clients prefer "hotlines or access to experts for quick questions" (63 percent), followed by "seminars and business-level training" (56 percent), and "Secondments" percent). popular (50 Less "conducting pre-matter planning sessions" (40 percent) and "provider's participation on internal calls" (33 percent). (Multiple responses were allowed.)

Interestingly, answers widely diverged on what firms already offered: Firms appear to either offer a range of value adds: Survey respondents mentioned "Deal bibles, hotlines, training, meeting rooms" and "Trainings, CLEs, sponsorships to conferences, Secondments, help with staffing, subscriptions, tables at pro bono events." Others said that their firms offered "none" at all.

We believe that it makes good business sense to ask clients early to understand their preferences, offering what they really value rather than applying a "one size fits all" basket approach to "value adds." One survey respondent made their preference clear: they did not want the firm to "charge us for EVERYTHING!!!" (capitalization and exclamation marks in original text.)

MOST CLIENTS ENJOY FREE ACCESS TO EXPERTS AND INTERNAL TRAINING

Of the below list, which activities are your preferred (and free) value-added services being provided from law firms and legal services providers?

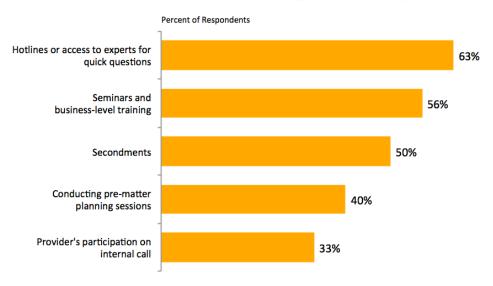


Chart adds up to more than 100%; multiple responses allowed.

SUCCESS REPORT

PROCUREMENT FEELS INCREASINGLY SUCCESSFUL

PROCUREMENT IS ON THE RISE. PROCUREMENT IS EARNING ITS SEAT AT THE TABLE. IT IS HERE TO STAY.

With all the savings achieved, it is no surprise that legal procurement professionals feel rather successful. When we asked survey respondents to rate how successful their organization was at using procurement to drive and receive value from legal services suppliers (on a scale from 1 to 10, with 10 being most successful), the average was 6.5, a slight increase from last year's 5.8.

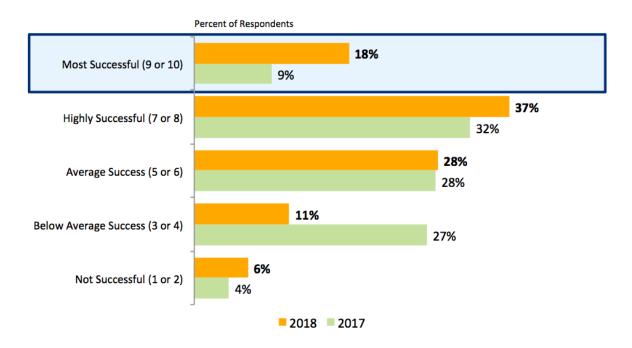
What's more, compared to the previous year, twice as many respondents as last year (18 percent, up from 9 percent), assessed procurement as "most successful" in their efforts to drive value in. (In the study, "most successful" was defined as respondents assessing themselves as a 9 or 10 out of 10). Also the "highly successful" group (respondents with a self-assessment of 7 or 8) went up from 32 percent in 2017 to 37 percent in 2018. In sum, more than half of respondents (55 percent, up from 41 percent in the previous year) felt rather successful.

This is a clear sign of increased confidence among legal procurement. Legal procurement professionals were able to use procurement's approach for legal services in a productive way, driving value and competitive advantage for their employers.

The group of "average success" (a self-assessment of 5 or 6 out of 10) remained at 28 percent similar to last year, and the group of "below average success" (a self-assessment of 3 or 4 out of 10) went down from 27 percent of respondents in 2017 to 11 percent in 2018.

At least among our survey respondents, confidence is up. They are contributors to the success of their organizations, able to reach their goals and fulfill their corporate mandate (see section "TOP GOALS: BETTER CAPTURE & ANALYZE DATA" for further information).

Interestingly, the group of "not successful" (with a self-assessment of 1 or 2 out of 10) increased from 4 percent in the previous year to 6 percent this year. This group of legal procurement professionals struggles to drive significant value from legal services suppliers. For these professionals, it will be important to develop better relationships with both in-house counsel as well as their colleagues in legal ops and gradually introduce legal spend management tactics (see also APPENDIX).



IT TAKES FIVE YEARS TO MASTER THE CATEGORY

PROCUREMENT IS NOT A CATEGORY FOR A BRIEF CAREER STINT. SUCCESS IS EARNED WITH TIME IN THE CATEGORY.

It takes a few years to master legal procurement: Our survey findings confirm that legal procurement professionals with a longer tenure are significantly more successful in driving value for the organization than those relatively new to it.

Legal procurement is still a relatively new area, but no longer "pioneer" territory. There is an increasing number of legal procurement "veterans" with a five to ten years of experience in the category. Currently, the average is 5.9 years in the for category legal procurement professionals, with some working in legal procurement for over ten years.

Legal procurement professionals with five to nine years and those 10 or more years in the legal category remained on a similar level (7.25 and 7.41, respectively). This puts both groups in the "highly successful" range. It appears that it takes five or more years to get a good grip on legal spend.

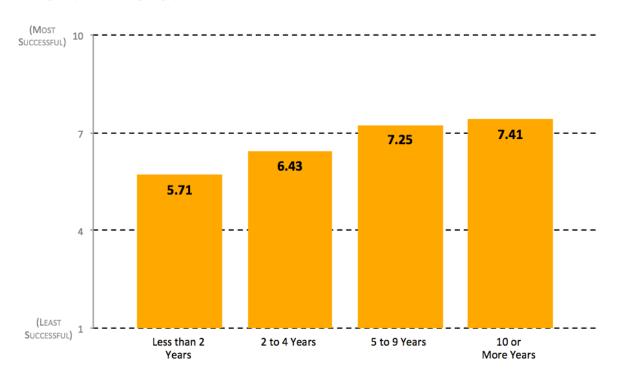
What's more, things are looking up and procurement professionals overall becoming more successful as the legal category matures in general. This has a positive effect even on those newer to legal procurement: Those with less than two years in the category rated their success level at 5.71 ("average success"), up from 4.33 (or "below average success") last year, while those with two to four years in the category also increased from 5.54 to 6.43, attesting them "average success."

The majority (34 percent) of respondents in the survey have been sourcing legal services for two to four years. 14 percent have been in the legal category for five to

nine years, and 11 percent spent ten or more years in legal procurement. A small number (5 percent) is new to legal, and 35 percent did not provide an answer.

PERCEPTIONS OF SUCCESS RISE AS TENURE IN PROCUREMENT RISES

How successful do you believe your company is at using legal procurement to drive and receive value from law firms and legal services suppliers? How long have you been working in legal procurement?



PROCUREMENT, LEGAL & OPS ARE WARMING UP TO EACH OTHER

THEY ALL WORK FOR THE SAME EMPLOYER. NOW THEY ARE INCREASINGLY ALIGNED AND WORKING TOGETHER. THIS CAN ONLY BE A GOOD THING.

Until a few years ago, law departments less than welcomed procurement's involvement in sourcing legal services. Their involvement was seen as an interference that could with established wreak havoc relationships. This potential interference was not worth a few discounts. How has law department's perception of procurement changed in the meantime? How would legal procurement describe their relationship with the company's department?

LEGAL & PROCUREMENT

It is clear that the situation has changed: In more and more organizations, procurement is a welcome "partner" and "colleague". Twenty-five percent of respondents in our survey categorized relationships with their colleagues in the law department as "partners." This is a significant increase from 17 percent of survey respondents last year. Forty-eight percent described their relationship with in-house counsel as "collegial" (up from 38 percent last year). This makes for a combined 73 percent of

respondents with a positive relationship (up from 55 percent in the 2017 survey)!

Only 16 percent experienced a "reluctant" relationship (down from 37 percent in 2017). But there is a general sentiment among this group that relationships with inhouse counsel need to be improved to be successful: "We really need to get a grip on the category. Legal has not been very cooperative. The challenge is that they do manage category not the professionally on their own," as one respondent wrote.

While in 2017 eight percent assessed to not have a relationship with their colleagues in the law department, in 2018, eleven percent said they had no relationship (to speak of) with their legal colleagues.

Since good relationships with legal are crucial to success in the legal category, building better relationships with the law departments remain on of the top goals.

WHAT ABOUT I FGAL OPS?

Legal procurement and ops have some overlap, particularly when it comes to traditional procurement work such as vendor management and data analysis. Procurement sees them as their natural area of expertise, while legal ops may see themselves as the subject experts in legal. If not well managed, this may lead to rivalry Procurement worse, conflict. professionals complain about legal ops not giving them access to spend data, citing

"confidentiality" as the reason for not sharing information with colleagues outside the law department.

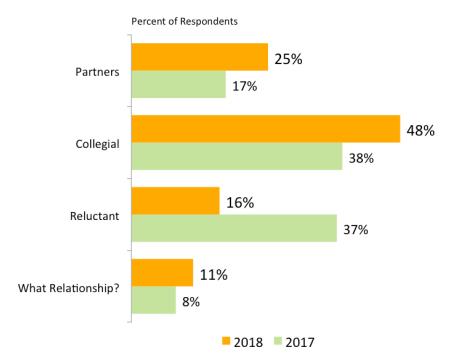
But this tension is increasingly a thing of the past. According to our survey findings, legal procurement and ops are getting along. It appears that Legal Procurement and legal ops are working with each other rather than against each other: 31 percent of survey respondents described their relationship with legal ops as "partners" and another 40 percent as "collegial." Combined, this adds up to 71 percent with positive relationships with their colleagues in legal operations.

However, 19 percent reported a somewhat "reluctant" relationship with legal ops and ten percent had no relationship (to speak of) with their colleagues in legal ops. Given that success depends on alignment between the two departments (see also "PROCUREMENT **FEELS** section INCREASINGLY SUCCESSFUL"), this will hopefully be overcome soon for the benefit of their joint employer.

Procurement supports legal ops in its quest for managing the law department better, in vendor management and spend data analytics where procurement is experienced corporate resource, giving legal ops more time to focus on data governance, knowledge management, litigation support, and its other areas of activity.

RELATIONSHIP DYNAMICS BETWEEN PROCUREMENT AND THE INTERNAL LEGAL DEPARTMENT WARMING UP SIGNIFICANTLY

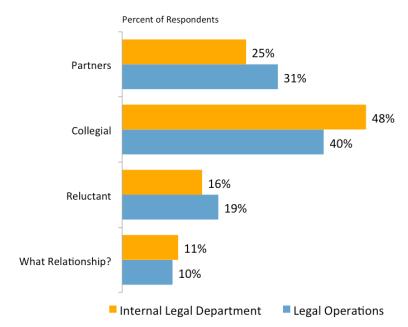
At your organization, how would you describe the relationship between legal procurement and the internal legal department?



Relationship with Internal Legal Department

STRONG RELATIONSHIP DYNAMICS BETWEEN PROCUREMENT AND **INTERNAL GROUPS**

At your organization, how would you describe the relationship between legal procurement and internal groups?



GOOD RELATIONSHIPS ARE IMPORTANT FOR SUCCESS

ONLY WHEN LEGAL AND PROCUREMENT COLLABORATE, IS SUSTAINABLE SUCCESS LIKELY, BUILDING FIFEDOMS IS A DESTRUCTIVE AND UNPROFESSIONAL APPROACH.

A good working relationship between the law department and legal procurement and successful legal procurement go hand-inhand. Interestingly, relationships internal law department appear to have an even bigger impact on success (both positive and negative) than the relationship with legal ops.

While the average success score was 6.5 (on a scale from 1 to 10 with 10 being the "most successful", see also section "PROCUREMENT FEELS INCREASINGLY SUCCESSFUL"), legal procurement professionals who saw themselves as

"partners" with their colleagues in the department assessed themselves at 8.5, that is, "highly successful."

procurement professionals who identify as "partners" with legal ops rated themselves at 7.9 (out of 10) on the success scale. Self-assessed "colleagues" with legal ops scored 6.7 on the scale with both the law department and legal ops.

"Reluctant" relationships with the law department scored 4.9 on the scale and 5.4 on the scale with legal ops.

REGIONAL DIFFERENCES

LEGAL PROCUREMENT IS NOT THE SAME EVERYWHERE. AS THE CATEGORY MATURES, THIS MAY CHANGE OVER TIME. BEST PRACTICES WILL PREVAIL. WE WILL CONTINUE TO WATCH THIS SPACE.

SUCCESS

As the reach of this survey was international, we were able to noticed some distinct regional differences, particularly in regards to legal procurement in North America versus Europe: North American legal procurement professionals on average felt more successful than their European colleagues: North American procurement averaged 7.01 (out of 10) on the self-reported success scale, while Europeans averaged 6.14 on the same scale (see also section "PROCUREMENT FEELS INCREASINGLY SUCCESSFUL"). While North Americans are culturally sometimes characterized as particularly optimistic, their reported achieved saving showed an average of 15.2 percent compared to the average achieved savings of European procurement professionals of 12.4 percent.

RELATIONSHIPS

As we discussed earlier, success in legal procurement is highly dependent on the relationship between procurement and its colleagues in the legal department and legal ops. Our survey found that North American legal procurement professionals typically have more positive relationships with their colleagues: Twenty-seven percent North American procurement of professionals saw themselves as "partners" with legal, compared to 18 percent in

Europe. A closer 50 percent (North Americans) and 46 percent (Europeans) saw themselves as "colleagues" with legal, while 11 percent of North Americans reported a "reluctant" relationship with legal compared to 21 percent of Europeans. Interestingly, relationships with legal operations seem to be slightly more positive in Europe: 33 percent of European said to be "partners" with legal ops compared to 29 percent of North Americans.

NUMBER OF PROVIDERS

Europeans use a significantly smaller number of traditional firms compared to their colleagues in North America: On average 103 firms compared to 185. They a similar number of ancillary legal services providers 25 compared to 26, respectively. Interestingly, alternative legal services providers or "New Law" firms appear to have been embraced more in Europe compared to North America: On average, ten firms are used in Europe, five in North America.

AMOUNT OF SPEND

According to our findings, European organizations spend much less on legal services than their North American colleagues: The average legal spend on traditional firms in North America was \$135 million compared to \$48 million in Europe. The average spend on ancillary legal services was \$19 million in North America

compared to \$5 million in Europe, and although not embraced by all organizations, average spend on alternative legal services in North America was \$6 million compared to \$2 million for European organizations.

PROCUREMENT TOOLS USED

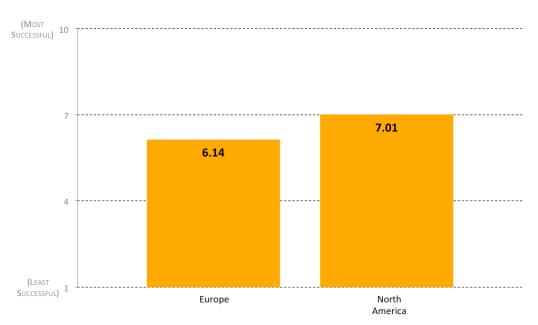
We also found some differences in tactics used by geography. North American organizations are more likely to issue RFPs (83 percent versus 67 percent of European organizations), require eBilling (84 percent versus 39 percent of Europeans), conduct invoice audits (51 percent versus 35 percent Europeans), and conduct data analytics (70 percent versus 52 percent).

The hourly rate billing method is not used in all EMEA countries, making the use of eBilling more challenging. Large multinational law firms who submit electronic bills in some countries and not others are areas of opportunity for clients to increase e billing compliance by outside counsel.

differences between Many of the procurement in North America versus Europe may be based on time, as procurement in Europe is a newer shorter discipline, with tenure procurement professionals. We believe that over time, as the category becomes more mature in general, these differences will become smaller and smaller.

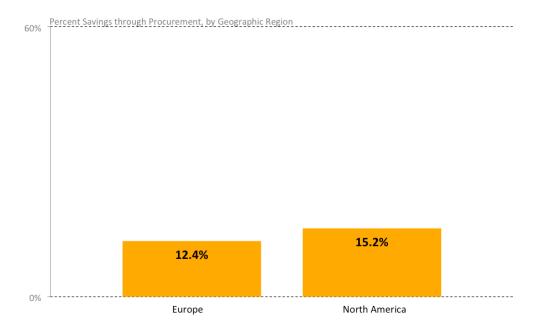
PERCEPTIONS OF SUCCESS SLIGHTLY HIGHER IN NORTH AMERICA

How successful do you believe your company is at using legal procurement to drive and receive value from law firms and legal services suppliers? Where are you based?



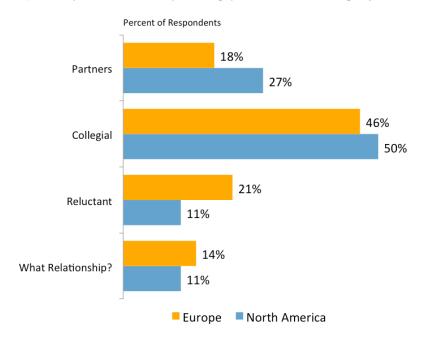
SLIGHTLY MORE SAVINGS SEEN BY NORTH AMERICAN COMPANIES

How much, as a percent of total spending with legal services providers, do you believe your efforts have helped save the organization in the last year?



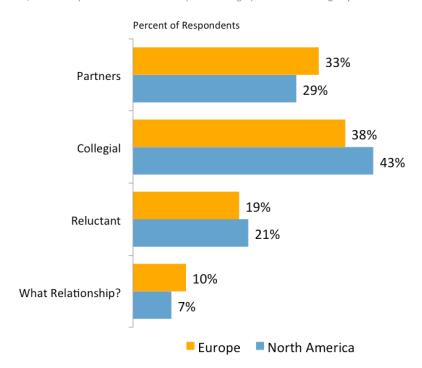
NORTH AMERICA ENJOYS SLIGHTLY STRONGER RELATIONSHIPS WITH INTERNAL LEGAL DEPARTMENTS THAN EUROPEAN COUNTERPARTS

At your organization, how would you describe the relationship between legal procurement and the internal legal department?



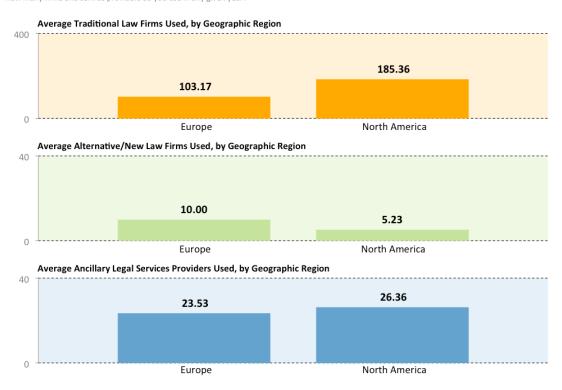
SLIGHTLY DIFFERENT RELATIONSHIPS WITH LEGAL OPERATIONS ACROSS GEOGRAPHIC REGIONS

At your organization, how would you describe the relationship between legal procurement and legal operations?

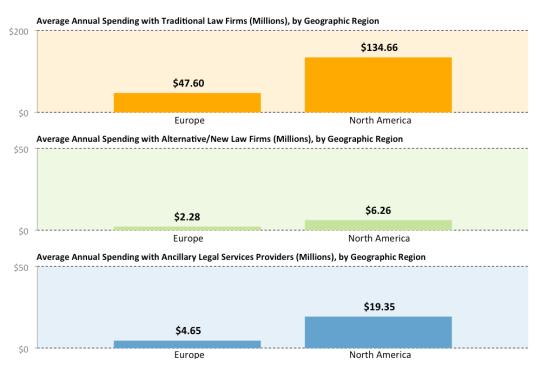


NUMBER OF FIRMS USED BY GEOGRAPHIC REGION

How many firms and service providers do you use in any given year?

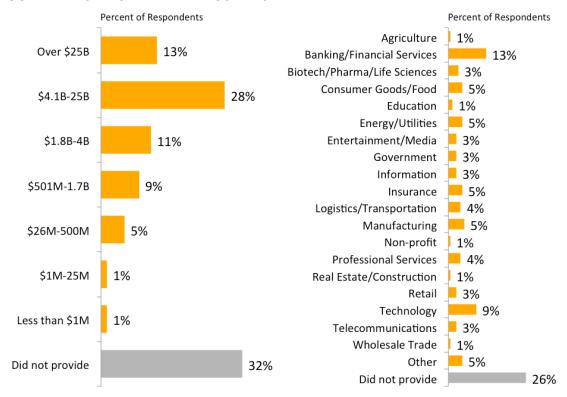


SPENDING BENCHMARKS BY GEOGRAPHIC REGION

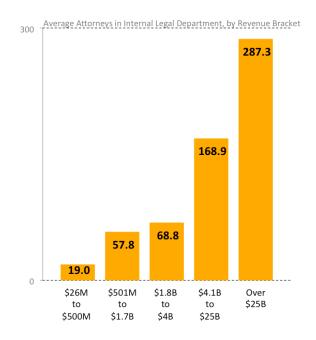


KEY DEMOGRAPHICS

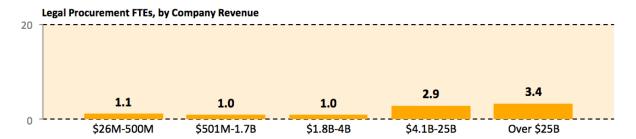
COMPANIES BY SIZE AND INDUSTRIES

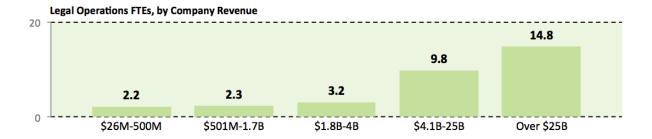


NUMBER OF LAWYERS IN LEGAL DEPARTMENTS (by company size)

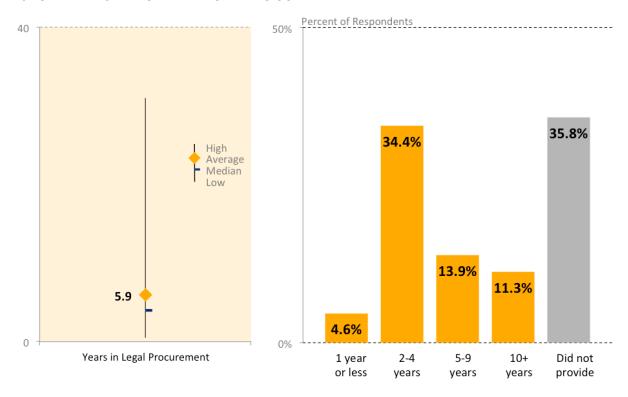


NUMBER OF LEGAL PROCUREMENT AND LEGAL OPERATIONS (by company size)

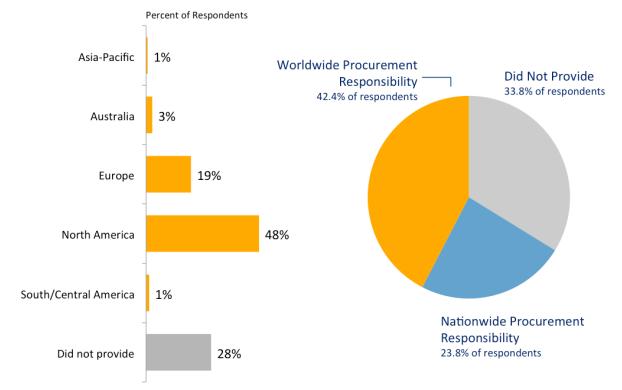




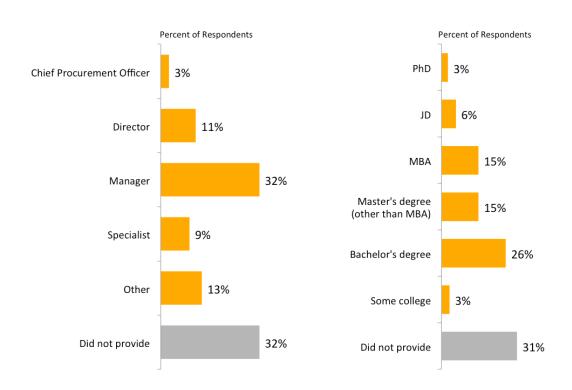
RESPONDENT'S TENURE IN LEGAL PROCUREMENT



RESPONDENTS' GEOGRAPHIC LOCATION & REACH OF RESPONSIBILITY



RESPONDENTS' JOB TITLE and EDUCATIONAL BACKGROUND



APPENDIX: SPEND UNDER MANAGEMENT MATURITY PROGRESSION & LEGAL PROCUREMENT MATRIX

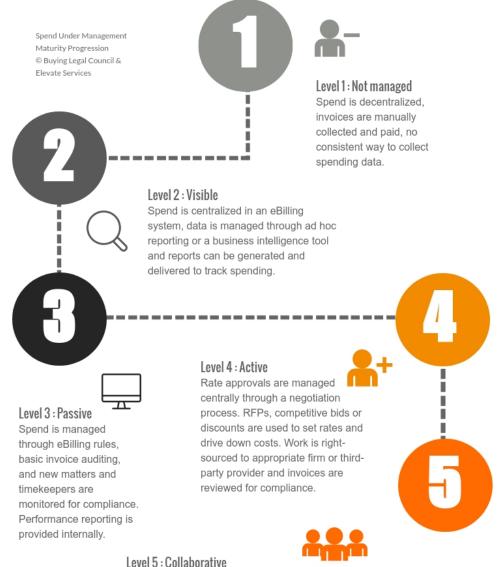
Legal procurement continues to increase its reach and influence as law departments are forced to find ways to manage and reduce legal spend without a negative impact on the quality of advice received or the achieved outcomes. Together, they have to determine which approach to take and find initiatives that bring fast results, best outcomes, and cause the least disruption.

In the past, many law departments took a "passive" management approach to legal spend. They may have developed and deployed policies and procedures that self-regulation encouraged of spend management, but by and large they took little direct influence on benefits and savings. Today's more "active" approach to managing legal spend means the law department - with legal procurement's help - engages with outside counsel to ensure policies and procedures are followed and benefits and savings are realized.

"Collaborative" management goes a step further and includes developing shared accountability between outside counsel and in-house lawyers to deliver innovative solutions. Today only the most advanced clients take this step. Some procurement organizations partner with law firms and inhouse lawyers to co-develop and realize new solutions going beyond savings, RFPs, eBilling, and data analytics.

The Spend Under Management Progression Chart (see next page) illustrates the progression from "Not Managed" (Level 1) "Collaborative" (Level 5). Legal procurement supports law departments through its insights and initiatives to move away from Levels 1 and 2 to Level 3 and 4 and in the most pioneering organizations, eventually to Level 5. It is a long road, but as the findings of the 2018 Legal Procurement Survey show, more and more organizations have started their journey.

Spend Under Management Maturity Progression



Competitive bidding managed at the matter level and budgets 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 and other vendors.

Legal Spend Under Management Maturity Model

Source: Legal Spend Management Primer (Buying Legal Council & Elevate) Download here: www.buyinglegal.com/LSM

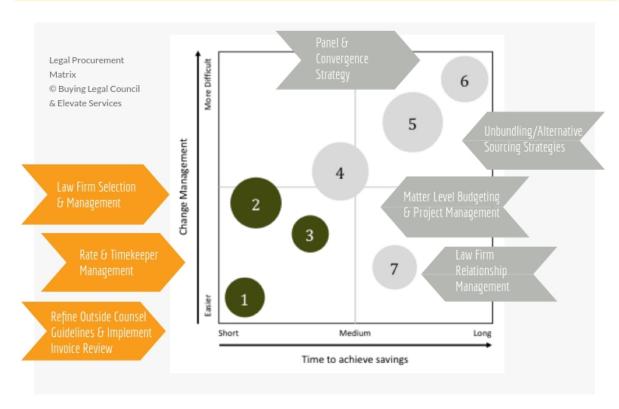
There are many Legal Spend Management initiatives clients can undertake, from simple process or policy changes to complex and comprehensive programs. Each initiative can deliver cost savings for organization and offer specific

performance benefits. These initiatives have varying time horizons and may be better suitable for certain organizations and cultures than others. The Legal Matrix prioritize Procurement helps initiatives and distinguishes them by:

- ✓ Time to Achieve Benefits: Strategies in the left quadrants typically realize benefits more quickly than strategies in the right quadrants.
- ✓ Change Management Requirements: Strategies in the bottom quadrants tend to be easier to deploy - either technically or politically - than strategies in the top quadrants.
- Benefit Opportunity: Larger bubbles show strategies that are more likely to deliver greater cost savings than strategies indicated by smaller bubbles.

For further information, please download the Primer: www.buyinglegal.com/LSM

LEGAL PROCUREMENT MATRIX



Legal Procurement Matrix

Source: Legal Spend Management Primer (Buying Legal Council & Elevate) Download here: www.buyinglegal.com/LSM

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