CounselLink Enterprise Legal Management

TRENDS REPORT

UPDATE ON THE 6 KEY METRICS

FEBRUARY 2017
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Executive Highlights

Insights are based on data derived from nearly $26 billion in legal spending, almost six million invoices, and approximately 1.5 million matters processed through the CounselLink platform. The key metrics are based on 2016 charges billed by outside counsel.

**THE GAP BETWEEN PARTNER HOURLY RATES FOR "LARGEST 50" FIRMS AND THE “SECOND LARGEST” FIRMS CONTINUES TO GROW.**

The "Largest 50" firms with more than 750 lawyers have billable rates that are 40% higher than the next tier of firms (501-750 lawyers). This represents a substantial change since the last Trends Report, when the difference was 30%.

**LAW FIRM CONSOLIDATION HAS INCREASED SINCE THE LAST TRENDS REPORT**

Of the companies in the CounselLink data pool, 62% have 10 firms or fewer accounting for at least 80% of outside counsel fees. This represents a 5 percentage point increase over the numbers reported in the Trends Report released in 2016.

**OVERALL USE OF AFAS SHOWS A SMALL UPTICK**

The percentage of all corporate matters under an alternative fee arrangement in 2016, as well as the total dollars billed, has increased by just .5% compared to 2015. Finance, Loans and Investments; IP-Trademark; Commercial and Contracts; and Mergers and Acquisitions show the greatest increase in AFA activity since the last Trends Report.

**WE CONTINUE TO OBSERVE SIGNIFICANT RATE INCREASES IN THE INDUSTRY, ALTHOUGH GROWTH IS VARIABLE ACROSS GEOGRAPHIES.** Three cities – Boston, Seattle, and Washington, D.C. – show rate growth of 3.5% or more both in the short term (1 year) and longer term (3 year compound annual growth rate, or CAGR). On the opposite end of the spectrum, three cities – Detroit, Miami, and Philadelphia – had hourly rate growth of less than 2.5% in both metrics.
Introduction

The first edition of the CounselLink Enterprise Legal Management Trends Report was published in October 2013. The inaugural report established a set of key metrics and provided insights that corporate law departments and law firms could use to guide their decisions and subsequent actions. This edition of the Trends Report presents the latest review of those guiding metrics, adding additional detail to the growing historical perspective on how legal market dynamics are evolving over time.

As always, the report presents a snapshot of data available via the CounselLink Enterprise Legal Management platform, with the volume of data available for analysis growing at a rapid pace.

You can find details about the methodologies used, definitions, and expert contributors conducting the analysis presented at the end of the report.

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Each annual update of the CounselLink Enterprise Legal Management Trends Report covers a standard set of key metrics related to hourly legal rates and the corporate procurement of legal services.
Volatility is a calculated indicator of blended rate variability. Higher numbers suggest a better opportunity to negotiate rates and/or the assigned timekeeper mix.

See following page for guidance on interpreting this chart.
Interpreting the Chart:

The chart on page 6 captures median rates for three different groups of timekeepers (partners, associates, and paralegals) and the range of the blended average hourly rate across multiple matter types. As a guide to interpreting the output, consider IP-Patent compared to Corporate, General, Tax. These two categories have somewhat similar average hourly partner rates – $458 and $460, respectively – but IP-Patent work requires significantly less partner time. The result is a noticeably lower blended median rate for IP-Patent work ($332) versus the same rate for Corporate, General, Tax ($369).

An additional metric provided in this section is the Volatility Index – a calculated marker indicating the variability encountered in blended matter rates. Using a 10-point scale, the Index reflects how broad the spread is between the 25th and 75th percentiles of hourly rates. High volatility scores indicate greater variance in prices paid based on the mix of timekeepers and individual hourly rates.

Although individual lawyer rates are the focus of considerable industry attention, it is equally, or arguably more important, to look at the bigger picture – the blended average rate of the different timekeepers that work on a matter. The chart shows that the median blended hourly rate is highest for Mergers and Acquisitions, where the most expensive firms are more often involved and with a great amount of partner engagement.

Comparing Regulatory and Compliance to Insurance as an example, the spread between the 25th and 75th percentiles of blended hourly rates for Regulatory and Compliance work is broader than that for Insurance. On a 10-point scale, Regulatory and Compliance has a Volatility Index of 10, while Insurance has an index of two, indicating that the mix of timekeepers and rates paid on Regulatory and Compliance matters varies more significantly than the mix for Insurance. A high Volatility Index could also be an indicator of a wide variety of matter types being represented in this category.

Six matter types have a relatively low Volatility Index (4 or lower), which means rates are consistent and less subject to negotiations between corporations and their firms.

- Insurance
- Environmental
- Real Estate
- Litigation
- IP-Trademark
- IP-Patent

Rates across most practice areas are rising relative to prior reports, however, most notably for:

- Commercial and Contracts
- Corporate, General, Tax
- Finance, Loans and Investments
- IP – Patent

The overall trend of rates is down slightly for Litigation and IP – Trademark practice areas.

Legal departments can compare their own data against these rates and ranges for help in managing costs. If they are currently paying at the top end of the range for more volatile matter types, there may be an opportunity to negotiate lower rates or to request a different mix of timekeepers to reduce costs. Note, however, that when looking at trends, it is important to evaluate the entire range of rates rather than focusing solely on the median rate.
Interpreting the Chart:

This chart shows the degree of law firm consolidation among companies whose outside counsel legal billings are processed through CounselLink. The horizontal axis aligns participating companies into nine segments addressing different degrees of consolidation. For example, the bar on the far right indicates that 34% of participating companies have 90-100% of their legal billings with 10 or fewer vendors, representing the most consolidated legal departments. On the other hand, the far left bar shows the least consolidation, with 1% of companies having less than 20% of their legal billings with 10 or fewer firms.

Industry type plays a significant role in consolidation. The segments noted below, reflecting high and low degrees of consolidation, were also identified as such in earlier Trends Reports:

- Retail Trade companies, at 77%; Information companies, at 71%; Manufacturing Pharmaceutical companies, at 70%; and Professional, Scientific, and Technical Services companies, at 69%, are highly consolidated.

- The Insurance industry has the lowest level of consolidation, at 42%.

Overall, corporations with high levels of law firm consolidation have increased significantly (from 57% to 62%) since the last Trends Report.
The use of AFAs to govern legal service payments varies considerably by legal matter type. Commodity-type work such as Insurance, IP-Patent, IP-Trademark, and Employment and Labor usually have the highest volume of matters billed under AFAs. The percentage of matters under AFA billings for Employment and Labor grew from 17.3% to 18.1%.

Overall use of AFAs remains fairly stable relative to previous reports, with both the percentage of matters billed under an AFA and the total dollars billed under an AFA increasing by .5 percentage points compared to 2015. Practice areas with increased AFA activity since the last Trends Report include Finance, Loans and Investment; IP-Trademark; Commercial and Contracts; and Mergers and Acquisitions.
We have observed that recently, more high-cost matters, or portions of those matters, are being billed under some form of an AFA. We will continue to monitor this trend and detail our findings in subsequent Trends Reports.
The gap between the average partner rates at the “Largest 50” firms (those with 750+ lawyers) and those at the “Second Largest” firms (501-750 lawyers) has widened since our last report. Firms with more than 750 lawyers have billable rates that are now 40% higher than the next smaller tier of firms (501-750 lawyers), compared to 30% in the previous Trends Report.
**Partner Hourly Rate Growth – by City**

Three major cities show rate growth of 3.5% or more over both the last year and the last three years

*Based on 2016 data*

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**Interpreting the Chart:**

In looking at unique partner hourly rates across 15 major metro areas, two indicators were plotted for each location to show both the year-over-year change and the compound annual growth rate (CAGR) over a three-year span.

Data for attorney rate growth by major U.S. city show that Seattle, Boston, and Washington, D.C. are at or above 3.5% in both CAGR and annual growth rate. At the opposite end of the spectrum, three cities – Miami, Detroit, and Philadelphia – experienced hourly rate growth below 2.5% in both metrics.
The average growth in partner rate is accelerating, with the average year-over-year growth for partner hourly rates across all states increasing from 2.5% in 2015 to 3% in 2016.
Aggregate statistics based on CounselLink invoice data identify Mergers and Acquisitions as the practice area with the highest partner rate – $634. Next is Corporate, General, Tax (which includes advice and counsel, antitrust work, and tax-related matters), followed by Regulatory and Compliance. In part, both practice areas at the top occupy those spaces because companies often use larger firms for these kinds of matters. In the last 12 months, the "Largest 50'' firms handled 36% of Merger and Acquisition work, and 48% of Corporate, General, Tax legal work, versus 29% for all other types of legal work. At the lower end of the average hourly rate spectrum is insurance work. Insurance companies demand and negotiate aggressively for low rates on their commodity defense matters.
Turning to partner rate growth by practice area, 3 of the 12 practice area categories have shown growth at or exceeding a 4% rate during the past year and over the previous three-year period: Regulatory and Compliance; Corporate, General, Tax; and IP-Patent.

Partner rates for Insurance, Employment and Labor, and Environmental are growing notably more slowly than rates in other practice areas.
About the Enterprise Legal Management Trends Report

TERMINOLOGY:

**Matter Categorization** – CounselLink solution users define the types of work associated with various matters that were analyzed and categorized into legal practice areas. For this analysis, all types of litigation matters are classified as "litigation," regardless of the nature of the dispute.

- Other, as an open category for all other matters and bills not already addressed

**Company Size** – Based on revenue cited in public sources, companies were grouped into these three size categories:

- $10 Billion Plus
- $1-10 Billion
- < $1 Billion

**Company Industry** – Companies were mapped into the NAICS hierarchy based on publicly available information:

- Finance
- Information
- Insurance
- Manufacturing
- Pharmaceutical
- Professional, Scientific and Technical Services
- Retail Trade
- Transportation and Warehousing
- Other
LexisNexis individuals making notable contributions to this latest Enterprise Legal Management Trends Report in the analysis of CounselLink data and in preparing the surrounding narrative include:

**Principal Author**

**KRIS SATKUNAS – DIRECTOR OF STRATEGIC CONSULTING**

As Director of Strategic Consulting at LexisNexis CounselLink, Kris leads the CounselLink team in advising corporate legal department managers on improving operations with data-driven decisions. Kris is an expert in managing the business of law and in data mining, with specific expertise in matter pricing and staffing, practice area metrics and scorecards.

Prior to joining CounselLink, Kris served as Director of the LexisNexis Redwood Think Tank, which she also established. For five years, Kris worked closely with thought leaders in large law firms conducting unbiased data-based research studies focused on finding solutions to legal industry management issues. Before that, she led the business of law consulting practice for large law firms. During that time she worked with key management at over a hundred law firms to improve the financial models and analyses developed for large law firms.

Kris has authored numerous articles and spoken at many legal industry conferences and events. She came to LexisNexis in 2000 after having honed her finance skills as a Senior Vice President in Strategic Finance at SunTrust Bank. She holds a B.B.A. in Finance from The College of William and Mary.

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**JUSTIN SILVERMAN – GENERAL MANAGER, COUNSELLINK**

Focused on the core CounselLink solution and its capabilities for Matter Management, Legal Spend Management, and Legal Hold, Justin is responsible for all aspects of product and market strategy and the end-to-end experience for corporate legal department customers. He joined the CounselLink team in 2011, coming from a two-year assignment as Senior Director of Global Strategy and Business Development for LexisNexis. Prior to that, he managed a professional services business at Gerson Lehrman Group, and also acquired more than six years of management consulting experience, equally split between Oliver Wyman and the Boston Consulting Group. He earned a J.D. degree from Northwestern University Law School, and an MBA from the Kellogg School of Management.
The CounselLink solution is an Enterprise Legal Management solution suite for legal spend management, matter management, legal hold, analytics, and strategic consulting services. The solution has earned an industry reputation for enabling corporate law departments to use data effectively as a basis for improving legal department performance and outcomes. Two factors validate these customer opinions and perceptions:

- Specific legal spend and matter management features in the CounselLink solution give corporate clients advanced capabilities to evaluate legal department performance and metrics on an ongoing basis, entirely on their own.
- LexisNexis invests significant resources in professional consulting and service offerings that add a valuable layer of expertise in analytics, benchmarking, and best practices. The overall goal with these optimization programs is to help clients translate data-driven analysis into actions that improve efficiency and bottom-line results.

If you have questions or comments about the CounselLink Enterprise Legal Management Trends Report, or want to learn more about CounselLink software and services, visit CounselLink.com, or contact us via email: LNCounselLink@LexisNexis.com. You may also contact us by phone: 855.974.7774.

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