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CORPORATE LEGAL DEPARTMENT MATTER BUDGETING AND FORECASTING: A STRATEGY FOR SUCCESS



BY DEEPRO BASU



This whitepaper explores how, with proper planning and implementation, matter spend budgeting can yield both tactical and strategic value for corporate legal departments.

Does your corporate legal department currently use matter budgets? If so, you're in good company. Approximately 60 percent reportedly do. However, many law departments only use budgets for the tactical value of tracking and controlling matter cost.

This whitepaper explores how, with proper planning and implementation, matter spend budgeting can yield both tactical and strategic value for corporate legal departments.



Why Budget? Five Key Benefits

Legal departments create budgets for a number of practical reasons. Over time, budgets provide an objective, historical context for managing matter costs—this is where the forecasting component comes in. Having a sense at the outset of what a matter is likely to cost gives you the opportunity to evaluate options for managing those costs.

The potential value of budgeting extends well beyond simply the cost savings that are likely to result, however. Regardless of the size of a department's legal spend, budgets offer many additional benefits.

- 1 **BETTER PLANNING.** Budgets help improve planning by applying specific limits to an organization's legal spend. With these limits in mind, the legal department is better equipped to evaluate risks and litigation strategies.

2 **MORE PREDICTABILITY.** Tracking matter spend against a budget helps improve financial predictability. For example, requiring budgets for all litigation matters on an annual basis enables you to better predict and plan for additional costs that may be needed for similar litigation that spans more than a year.

3 **IMPROVED DECISION MAKING.** Tracking legal spend against a budget helps law departments make more informed decisions regarding how matters are handled. It provides context for engaging with outside counsel early on in a matter and enables a better understanding of potential risks before deciding how to proceed.

4 **A BENCHMARK FOR LAW FIRM PERFORMANCE.** Adding a budget dimension to your discussions with outside counsel about matter status makes the conversation even more robust and useful to both you and your outside counsel. A budget also helps establish a benchmark for ongoing performance measurement.

5 **ENHANCED CREDIBILITY.** The ability to budget and forecast with greater accuracy helps to establish the legal department's credibility in the eyes of department heads and upper management. Sharing data and insights into matter costs and handling between departments helps to foster better communication and cooperation.



Getting Started

When implementing a budget process, it's important to take the objectives of your department and the organization as a whole into consideration and then align your process with those objectives.

For example, if your primary objective is to improve legal spend forecasting and predictability, your budget program should include measurements for budget variances and the processes to help minimize them. If your objective is to measure the accuracy of law firm matter budgets against actual costs – either across your legal operation or by practice area – your process should include the ability to capture and track the appropriate metrics at the matter and law firm level.

At the outset, it is essential to decide who will be responsible for establishing the budget. Will it be your in-house counsel or outside counsel? Or, as is often the case, will it be a collaborative effort? You also have to determine a budget period and level of granularity that makes the most sense, requirements that may vary by practice area.

The type of industry in which your business operates is also an important factor. The highly regulated financial industry, for example, may require more frequent updates such as those called for in monthly or quarterly budgets. Those in the manufacturing industry may find that budgeting legal spend annually or tracking the life of matter fees and expenses makes the most sense.

Once you've adequately addressed preliminary considerations such as these, you'll be prepared to implement best practices for budgeting and forecasting.



9 Best Practices for Optimizing the Benefits of Legal Department Budgeting

The following best practices are drawn from budgeting and forecasting practices currently in use by CounselLink customers who have implemented their own successful programs.

- 1 TAILOR THE BUDGET PROCESS.** When it comes to matter management, there's no such thing as a one-size-fits-all-budget period. For legal departments handling primarily smaller-dollar, high-volume matters, a life-of-matter budget may be the best choice. This framework reinforces the idea that you expect your law firms to help you manage matter costs. Complex matters, on the other hand, may require that you use annual, quarterly or even phase-level budgeting for greater collaboration on the risks and costs associated with such matters. Regardless of the budgeting parameters you choose, it's wise to be flexible. Measuring effectiveness across multiple budget periods will help you refine your strategy as you continue to roll it out on a larger scale.

- 2 **DETERMINE THE LEVEL OF BUDGET DETAIL REQUIRED.** For those just getting started with matter budgeting, implementing a Summary Level budget is often preferred. Legal departments that require more granular detail should consider implementing a budget of Fees and Expenses, or one that includes Phase levels of detail.
- 3 **COLLABORATE WITH OUTSIDE COUNSEL.** Starting with the information you currently have about typical matter costs, formulate a draft budget template based on typical known costs. Then share that template with a few of your more receptive outside counsel firms to gather feedback and work together to revise it. The process may require a few iterations, but the more closely you work with your law firms, the more realistic and useful the budget you ultimately arrive at will be. Once you have arrived at a budget process and template, update billing guidelines to communicate the agreed-upon requirements and process expectations to encourage collaboration and accountability on the part of your outside counsel.
- 4 **MANAGE WITH METRICS.** After setting up the budget, determine how you will manage it. Capturing matter budgets within an enterprise legal management system like CounselLink gives you the ability to conduct reporting and analysis for tracking and managing matter budgets in real time. For example, notifications and alerts that are triggered automatically by CounselLink are useful for staying informed about important matter milestones or managing budget thresholds.
- 5 **ESTABLISH. AGREE. ENFORCE.** Budgets are extremely useful for incentivizing outside counsel to manage costs. On the other hand, failure to enforce agreed-upon budgets undermines the process. Budget conversations with your outside counsel should also include how you intend to enforce budgets. Common enforcement strategies range from setting budget threshold notifications to prompt discussion with outside counsel, to rejecting invoices when the budget is exceeded. All approaches should provide an opportunity to work with the law firm to understand the cause of the overage and discuss ways to avoid a similar situation in the future.
- 6 **TRACK ASSUMPTIONS.** Your budget is dependent on the phases, tasks, and timekeeper effort required to complete the legal work. That information, in turn, drives the assumptions you will make regarding matter costs. As more information becomes available through your tracking efforts, your assumptions and your budget may change. Over time, these changes will help you refine your budgeting skills, enhance the accuracy of your budgets, and serve as reliable reference points when you're budgeting similar matters in the future. Eventually, the body of proven and disproven assumptions you compile will help lead your future conversations about budgeting and frame strategy discussions.
- 7 **USE REPORTING AND ANALYTICS TO GAIN INSIGHT.** Tracking and analyzing results enables you to get the most out of budgeting. By overlaying the budgeting and forecasting process with analytics, you'll be able to identify what's working and what's not so you can adjust the process accordingly.

Dashboards such as the ones illustrated below are useful for visualizing legal spend at a glance. They allow you to quickly roll up spend information by practice area, law firm, size of matter, your organization division/office, and more. In the example of a basic spend dashboard shown immediately below (Figure 1), the blue column indicates the budget and the red column indicates the actual spend.

Figure 1. CounselLink Basic Spend Dashboard



In the second dashboard (Figure 2), green indicates that spend to date is still in line with the matter type budget. The red bar in the third column indicates that spend has exceeded the budget, as noted in the U.S. Intellectual Property matters bar. When implementing budgets for the first time, you should identify how much budget variance you will tolerate. We recommend adopting a 20 percent tolerance band to start and then building a process to lessen variance over time.

Figure 2. CounselLink Matter Type Budget Dashboard



8 BUILD CONTINUOUS IMPROVEMENT INTO THE PROCESS. Regardless of whether you're taking your first steps toward implementing a process for budgeting and forecasting or you're a budget master, the goal should be to continually refine and improve your process. This is best accomplished by engaging with your outside counsel on a regular basis to solicit their assistance with process improvements. Doing so not only helps improve your ability to budget more accurately, but it also increases the accountability of your outside counsel.

9 MANAGE CHANGE. Implementing change can be difficult in any organization—and perhaps even more so in a corporate law department. Implementing a pilot budget program with a select few partner law firms can reveal what works and help iron out the wrinkles before rolling out the budget process to your entire panel. Pilot programs also generate feedback that's useful in developing the proper templates, processes and communications, both internally and externally. Taking the time to formulate a change management strategy that factors in upfront administrative costs and includes updating outside counsel guidelines, a communication plan and training process is worth the effort. It will help you avoid surprises, secure the buy-in of outside counsel and ensure the ultimate success of your budgeting initiative.

Putting it All Together

Although implementing a budget and forecasting process may seem daunting to a law department that's just getting started, the benefits far outweigh the effort expended. This is one arena where the adage 'start small and scale up' certainly applies. Matter budget and forecasting processes can easily evolve over time, becoming increasingly sophisticated as you gain experience. Allowing internal staff and outside counsel to adapt to the process incrementally increases their comfort level and helps make them more open to future changes. As stakeholders discover the value of the process, they will likely welcome implementation of more comprehensive budgets across additional types of matters.

ABOUT THE AUTHOR



DEEPTO BASU

Deepto Basu has more than 17 years' experience in business analysis, product management and IT, and has successfully solved complex customer and product-related problems at several Fortune 100 companies. At LexisNexis, Deepto's main focus area is analytics and reporting. He leverages his experience in product management and software engineering to identify, understand and analyze customer needs and transform them into successful product solutions and offerings. He has a Bachelor's degree in Production Engineering.

About CounselLink

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