Building a Strong Spend Management Program

AI can help departments achieve better value from their legal spend

*Outside counsel guidelines have become increasingly complex, requiring companies to pay special attention to both details and trends in billing. Our editors sat down with **Linda Hovanec** and **Matt Kivlin** of **Wolters Kluwer's ELM Solutions**, to talk about building a strong spend management program and how artificial intelligence can help identify irregularities and errors in billing, and therefore increase efficiencies within legal spend management. Their remarks have been edited for length and style.*

One of the most valuable investments you can make is in a professional invoice review service.
– Linda Hovanec

Legal spend management is a widely used term by both inside and outside counsel, and other players within the industry. Specifically, what does legal spend management encompass?

Matt Kivlin: Legal spend management is about helping corporate legal departments better understand, manage and control their costs. At Wolters Kluwer's ELM Solutions, we think that really starts with efficiencies, providing an easy way to help corporate legal departments streamline the invoicing process from submission through review and ultimately through to payment processing. If you look at this space historically, it really started with an emphasis on e-billing, helping companies move away from paper invoicing with a particular emphasis on ensuring that outside counsel invoices are compliant with their particular billing guidelines. Now, wrapped around this process are key workflows, things that help you better support other spend activities such as managing rates and defining and tracking budgets.

One thing that we feel very strongly about is that efficiencies are just the beginning, and legal spend management is really a catalyst for something equally important – and that's visibility. By having a system-driven approach, companies can get a deeper level of insight into their spend, and these are insights that can inform smarter decision-making, including more intelligent cost forecasting, more informed decisions about managing your panels and other aspects of your legal operations.

What is the foundation of a good legal spend management approach for an established legal department?

Kivlin: When we look at the foundation, we think it really starts with invoice submission, extending to analysis of those invoices, and then ultimately the review. The approach has to start by being comprehensive. It needs to systematically identify the myriad of potential compliance issues that may exist with the invoicing. But it is equally important that it has to be easy, and it has to be integrated into your everyday workflow. Building on that, on top of invoicing, the approach then needs to extend to other supporting functions – things like budgeting, outside counsel rate management and/or panel management. And let's not forget that there's another set of parties in this process, and that's outside counsel. So the solution has to make it easy not just for the legal department, but also for the outside firms so they can collaborate, they can exchange information, they can join in shared workflows, and then ultimately work together to drive the best outcome.

Linda Hovanec: Another component that's really critical to building a good foundation is integrating your business intelligence. E-billing generates a lot of valuable data that you want to be capturing and analyzing to drive better decisions, better strategies, and an understanding of where your legal spend is going and how it's trending over time. Integrating business intelligence information into the day-to-day operations will give you insights into how to reduce costs and ultimately improve performance across the law department.

What are the next steps for a department that has met those basic spend management needs and would like to achieve even better value from their legal spend?

Hovanec: To take it to the next level, companies can start comparing internal data with industry benchmarks in order to identify additional opportunities for savings. We have a report that we publish annually, the Real Rate Report, with actual anonymized legal billing data. It's broken out by practice area, by geography, and even by details like years of experience. So companies can use this to determine how firms are performing against the market in terms of the value they deliver.

Also, establishing dashboards and analytics that can provide companies with both high-level performance information for reporting up to senior management, as well as detailed information – which matters or team members are meeting expectations and which may need some attention. One of the most valuable investments you can make is in a professional invoice review service, in particular our LegalVIEW BillAnalyzer service, which combines machine learning technology with our expert invoice reviewers.

Within the industry, we're hearing a lot about machine learning and artificial intelligence, which I understand fuels the LegalVIEW BillAnalyzer service. Can you tell us more about that platform?

Hovanec: There definitely is a lot of hype around artificial intelligence and machine learning. Our LegalVIEW BillAnalyzer actually delivers tangible results to our clients with the help of machine learning. It's really well-suited to e-billing and spend management because machine learning works best with large amounts of data, which it uses to continuously learn and get smarter. Because BillAnalyzer leverages our LegalVIEW database, which has over $100 billion in invoice legal data, it's pretty smart.

The way it works is that BillAnalyzer's AI analyzes incoming invoice line

If you capture and analyze data carefully, it will point you in the right direction.
– Matt Kivlin

items and then compares them against the billing guidelines. It determines which are most likely to require an adjustment, and then our billing analysts take over. These are legal professionals with expertise in billing analysis. The machine learning helps our experts prioritize where they should be reviewing potential issues or non-compliance in invoicing. From there, our experts will identify possible adjustments.

This creates an opportunity for greater communication with outside counsel. We offer the outside counsel the ability to address any non-compliance issues. It's fair. Then, if appropriate, they will readjust that invoice. It's just a really principled process with good communication that continuously improves the firms' billing performance. We're improving compliance and in many cases saving millions of dollars for our clients in legal spend – sometimes even millions each month.

As we head into the new year, what advice would you offer to general counsel or legal operations managers who want to improve their legal spend programs?

Kivlin: We'd suggest a few things. First, don't let your data go to waste. If you capture and analyze your data carefully, it's going to point you in the right direction and it will help you improve your overall results. Also, involve your law firms. They're a key part to your mutual success. Share your goals with them, most importantly, so they know what "good" looks like in your eyes. This will help them better meet your expectations and ensure that you mutually get to that right balance between costs and the best outcome. Then, when it comes to using data and analytics to improve performance, focus. For example, if you want to improve budgeting, make that a focus and put a program around it. Or if you want to improve how you are managing your panels, use spend data to build a program for that. Then, whatever your goal is, communicate it well and measure your results often.

Linda Hovanec *is a Senior Director in product management, global business intelligence and analytics at Wolters Kluwer's ELM Solutions, with a focus on leading the company's LegalVIEW® product line. Hovanec has worked in the business of law for over 25 years. She has been at ELM Solutions since 2001, helping corporate legal and claims organizations drive better outcomes in partnership with outside counsel. She also has experience as a litigation paralegal and a law firm administrator. Her extensive background gives her a deep understanding of the realities and challenges of corporate law departments and claims organizations. She can be reached at linda.hovanec@wolterskluwer.com.*

Matt Kivlin *leads the Product Management team responsible for identifying, prioritizing and validating offerings in Wolters Kluwer's ELM Solutions' core markets. In this role, he oversees the product portfolios for corporate legal departments and insurance claims defense organizations. With a strong history of incubating and launching successful new products, he has a proven track record for product strategy, new solutions definition, cross-functional alignment, and exceeding customer expectations. He can be reached at Matt.Kivlin@wolterskluwer.com.*

Correlation

Continued from page 41

could have a non-linear (e.g., curved, step or bimodal) relationship. Using our data set, the correlation turns out not to be statistically significant, meaning that it could be a function of chance.

Always remember that correlation does not prove causation. Just because the degree of regulation of an industry correlates with higher legal spend per billion of revenue does not mean that regulation is the cause of those legal expenses (nor do bulging legal bills cause regulations!). Other factors may be at work such as political influence, case-law development, maturity of the industry, or specific legislation. Sometimes a third factor accounts for the close relationship between one metric and another, such as concentration in an industry. Statisticians refer to those behind-the-scenes factors as *lurking variables*.

One way to remove the effect of a possible lurking variable from the correlation of two other variables is to calculate a partial correlation. A *partial correlation* is the correlation that remains between two variables after removing the correlation that is due to their mutual association with one or more other variables. By looking at a graphic of the partial correlation coefficient matrix among the variables (like a heat map), it may be visually clear that the partial correlation between some of them is quite high.

Let's add one more math concept related to correlation. *Covariance* tells how much two sets of variables vary together. It's similar to *variance*, but where variance tells about a single variable's distribution, covariance tells you how two variables vary together. The larger the values of the variables, the larger the covariance. For our data set of 28 law firms, the covariance of equity partners and non-equity partners is -91.8. If we divide that covariance by the product of both variables' standard deviations we arrive at the correlation coefficient given above.

We emerge from this brief dive into mathematical methods. The key takeaway from this column is that correlation tools stand ready to help managers of lawyers to more crisply understand data variables that might vary together. Managers need not rely only on their own experiential sense of two sets of numbers changing in relation to each other. Correlation can put precision to intuitive insights and can clarify the direction of the variation and its credibility.

Law Department Operations

Continued from page 43

has already been previewed and make sure the rate didn't change arbitrarily in the middle of the month – that a $150 rate didn't suddenly become $475 without a conversation about it. That's the kind of thing that can be easy to miss when you're looking at a bill more holistically. When you look at a whole law department, those little misses add up to quite a bit of money.

Most of the spend management systems out there that are just focused on electronic billing will tell you that they're finding anywhere from 3 to 7 percent savings, so that's a pretty simple business case for law departments to put them into place. Say we spend X amount of dollars on a legal management system in the cloud, and it reduces our outside counsel expenditures from last year by 5 percent, that's probably somewhere between 7 and 14 times return on investment. These systems also allow the general counsel to analyze their spend and offer practical business cases for additional savings. For example, they could show the value of hiring additional practicing lawyers in-house, and thus reduce their outside counsel spend.

What do you think will be the biggest trend in law department operations for 2018?

Ruderman: The biggest trend I see for 2018 is an increased reliance on information and data analysis – and it doesn't matter whether it is people doing the analysis or machines. The real change will be a focus on the questions that matter and a move toward acknowledging the inherent biases implicit in doing things the way they've always been done. This will lead law departments to hire more professionals beyond practicing attorneys that can bring analytical and other business skills. We will also see increased adoption of cloud-based software, outsourced legal processing, alternative fees and dedicated legal sector procurement managers. As the law department acts more and more like the other business units in terms of efficiency and client satisfaction, it will also partner better with IT, sourcing and external vendors to gain a better picture of operations and a firmer grip on spend.