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HBR Consulting's Annual Survey Finds Growth in Total Legal Spending as Law Departments Report Rising Legal Needs

Despite Increase in Spending, Survey Report Also Reveals Law Departments Continue to Take Measures to Contain Costs, Enhance Operational Efficiency

November 27, 2018 (Chicago, IL) – As global organizations continue to report increased legal needs, corporate law departments' total legal spending increased by 5 percent, according to the [2018 HBR Consulting \(HBR\) Law Department Survey](#).

This increase in spending reflects a noticeable change in law departments' legal demand and spending: the last four years' survey results saw a flat or 1 to 2 percent increase in total legal spending. This year's increase is driven by internal and external factors, as respondents cited a 3 percent median increase in both in-house and outside counsel spending.

Law departments are dealing with increased legal work

The majority of law department respondents (81 percent) expect their legal needs will continue to increase in the next year. Respondents cited commercial contracts, regulatory compliance and M&A as the top practice areas they expect to require legal attention in the next year.

"The survey findings support what we have been witnessing in our consulting work with law departments: there are several factors driving the increased spending," said managing director Lauren Chung. "The demand for legal services continues to rise and law departments are turning to internal resources, as well as external service providers, to address the growing volume of legal needs. Internally, law departments are investing in talent and technology. Externally, we are seeing increases in hourly outside counsel rates that are fueling spending levels." Sixty-one percent of the survey respondents indicated an increase in hourly outside counsel rates. At the same time, the allocation of external spend appears to be shifting. "We see an increased reliance on non-law firm providers in areas traditionally handled by outside counsel, signaling an emphasis on exploring innovative legal service delivery models," stated Chung.

How leading law departments are addressing challenges

With rising demand and legal costs, "cost control and cost management" continues to be one of law departments' greatest challenges, as reported by 60 percent of respondents. The most commonly cited tactics for handling increased legal work were boosting the workload of existing resources (41 percent) and expanding the use of current technology (37 percent). These tactics were followed by increasing the number of in-house lawyers (34 percent), which indicates a continued focus on using internal resources as an initial recourse prior to engaging outside counsel.

Law departments also continue in their efforts to streamline operations and invest, not only to control costs but also continue to increase efficiency. Leading law departments are:

- **Continuing to invest in in-house resources.** Law departments are focused on building internal capability and investing appropriately. Fifty-two percent of respondents indicated an increase in law department staff, up from 44 percent in the prior year's survey. In the coming year, 40 percent of law departments expect to add lawyer headcount, up from 31 percent last year. In addition to staffing increases, the survey reports a healthy 3.8 percent median increase in attorney compensation.
- **Planning implementation of next generation technologies to increase productivity.** Law departments continue to be interested in data-related technologies that help automate manual workflows and create visibility into workload and spending, allowing organizations to improve operating efficiency and facilitate decision making.
 - Twenty-eight percent of participants indicated they plan to implement artificial intelligence technology in the next one to two years, up from 22 percent last year. Additionally, 7 percent have already implemented an

artificial intelligence solution, up from only 1 percent last year. We expect this trend to continue as leading law departments demonstrate ongoing interest in artificial intelligence.

- Twenty-six percent of participants are planning to implement legal spend analytics in the next one to two years, up from 24 percent in 2016 and 2017. Additionally, 49 percent have already implemented a legal spend analytics solution, up from 46 percent in 2017 and 39 percent in 2016.
 - These were topped, however, by contract management solutions. Already implemented by 55 percent of participants, 29 percent of companies plan to implement contract management solutions, the highest percentage among the 19 different technologies surveyed.
- **Exploring changes in matter management and e-Billing.** Eighty percent of respondents said they have matter management and e-Billing systems in place. This marks an all-time high for the survey, indicating that these tools have become foundational for managing workload and outside counsel spend. However, of the most commonly used systems, these were cited as most likely to experience market movement within the next year. Twenty-four percent of law departments reported they are moving to or planning to explore new matter management and e-Billing systems this year, up from 17 percent last year. According to Chung, “newer market entrants and legacy product acquisitions are causing law departments to consider other products.”
 - **Expanding outside counsel management programs.** Outside counsel management initiatives continue to be a cornerstone of law department cost management. Sixty percent of responding law departments have a program or plan to consolidate the number of outside counsel firms they use. Those who have implemented these convergence programs estimated 10 percent attributable savings in outside counsel spending. Additionally, 73 percent of law departments are actively seeking to increase the use of alternative fee arrangements.

“This year’s survey results reflect law departments’ growing maturity and sophistication in cost management and operational effectiveness. We expect that law departments will continue to prioritize and explore new ways to leverage internal resources, technology and external partners to drive innovation in legal service delivery,” concluded Chung.

About HBR Consulting

HBR Consulting (www.hbrconsulting.com) delivers advisory, managed services and software solutions that increase productivity and profitability, while mitigating risk for law firms, law departments and corporations. As trusted advisors with deep industry experience, clients partner with HBR to achieve significant, sustainable results.

About the Survey

The annual [HBR Law Department Survey](#) is the leading source of benchmarking data for U.S. and global law departments, providing comprehensive data on legal spending, staffing, operations, technology, outside counsel management and compensation. The Survey, now in its fifteenth year, continues to expand its focus on global legal function management, including data from over 250 participating companies representing 20 industries. For more information about how to purchase HBR Law Department Survey reports, visit www.lawdepartmentsurvey.com.