

Learnings For Managing Partners

ALTMAN WEIL 2006 LAW DEPARTMENT METRICS BENCHMARKING SURVEY



Key Findings

1. Law department lawyer staffing rose significantly in 2005.
2. Overall, a corporation's legal costs rose by almost 8% in 2005.
3. In spite of more than a decade of discussion and focus on alternative fee arrangements, most law firm/corporate law department billing arrangements continue to be hourly rates and discounts on hourly rates.
4. The average number of law firms employed by corporations showed a slight decrease from 2004 to 2005 at the largest corporations (\$5 billion and over), demonstrating continuing careful management of the number of law firms employed.

Introduction

The more law firms understand about the operations of an in-house law department and their corporate clients, the better positioned they will be to survive in today's competitive legal industry.

Law departments have evolved from the early days of simply managing outside resources for their corporate business clients to being significant players in the purchase and the delivery of legal services. In-house law departments now attract talented lawyers with a significant depth of experience in both law firms and the business world. These in-house lawyers make decisions on which law firms to use and when to use them.

Unfortunately, we still hear from Chief Legal Officers that law firms "just don't get it." When asked what steps outside counsel have taken to improve the working relationship with their law department, the response from nearly 20% of 165 respondents was "none." Both Altman Weil and LexisNexis Martindale-Hubbell want to facilitate the relationships between law firms and corporate law departments — each needs the other for survival. There are no law departments that can provide all the necessary legal services and, of course, law firms are dependent upon their corporate clients for their livelihood.

This report, prepared by Daniel J. Dilucchio, Jr., of Altman Weil, focuses on selected highlights of the results of the *2006 Edition of the Law Department Metrics Benchmarking Survey* published by Altman Weil Publications, Inc. in cooperation with LexisNexis Martindale-Hubbell. We hope that this report provides valuable insights for managing partners and law firm leaders about the operations of their clients' in-house law departments. We trust that these insights will lead to deeper long-term client relationships.

Background

Altman Weil, Inc. has monitored the trend of in-house counsel legal performance across seventeen surveys conducted from 1972 through 2006. The *Law Department Metrics Benchmarking Survey, 2006 Edition* provides benchmarks on:

- Staffing
- Expenses
- Outside counsel
- Operations and functions

Some of the challenges facing law department management today include implementing cost controls, convergence programs, defining performance improvement objectives and aligning departmental goals to corporate business strategy.

The Results

General Counsel are called upon to provide tangible results and more predictability in legal costs. Benchmarking provides the necessary starting place for measuring and managing the law department. However, these benchmarks can also assist law firms in addressing their clients' needs and objectives. Awareness of these benchmarks can also assist in setting law firm strategy relative to client service.

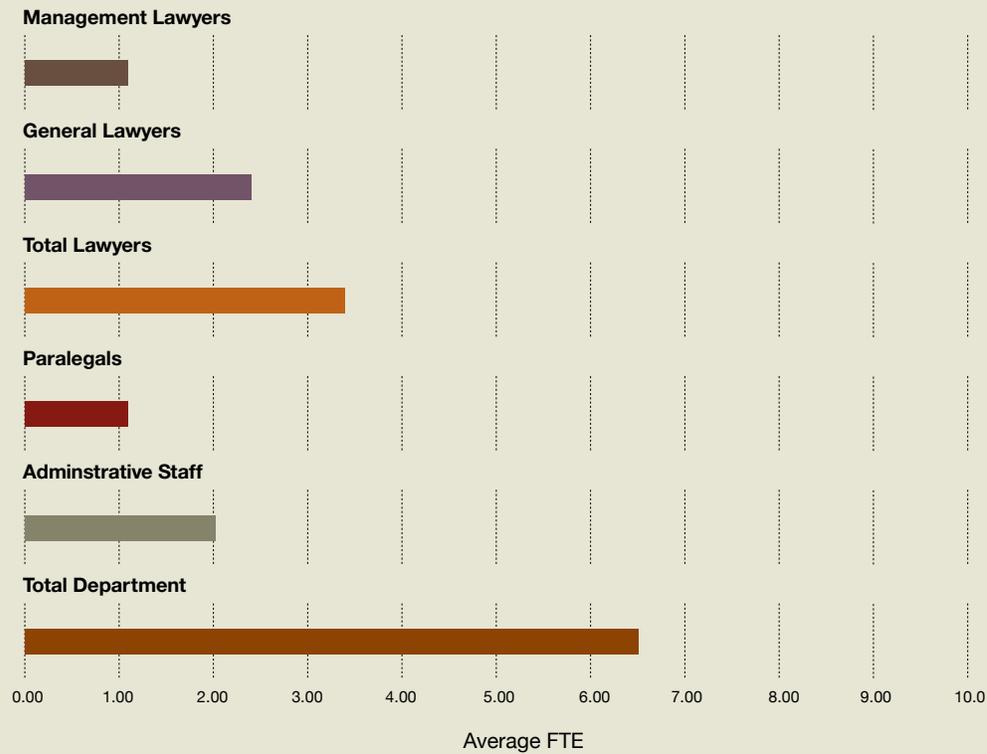
The selected benchmarks have been supplemented by information from the recent 2006 CLO Survey conducted by Altman Weil, Inc. and LexisNexis Martindale-Hubbell (complimentary copies are available from either organization).

Detail Findings

Law Department Lawyer Staffing Rose Significantly in 2005

A key measure of law department activity revealed that General Counsel increased by a significant amount the number of lawyers working in-house in 2005. In-house lawyer staffing is generally measured by the number of lawyers per billion dollars of annual revenue of a corporation. In 2005, this number was 3.49 lawyers per billion dollars of revenue. In 2004, this number was 2.93 lawyers per billion dollars of revenue. This number will be carefully monitored to see if it suggests a movement to internalize more of the legal work and reduce reliance on outside law firms. According to the *LexisNexis/Altman Weil 2006 Chief Legal Officer (CLO) Survey*, CLOs are also predicting more lawyer hiring outside of the U.S. as their businesses grow globally.

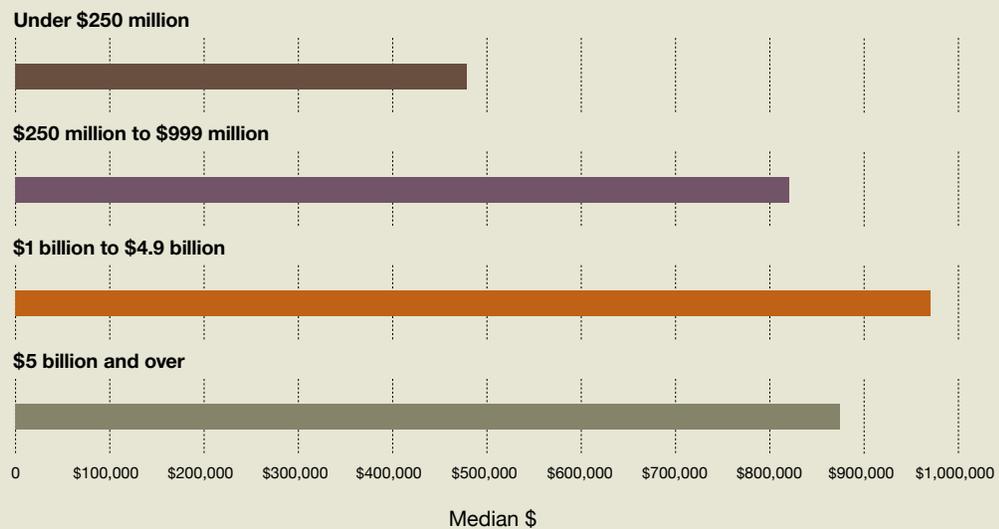
Number of Lawyers and Staff Per \$1 Billion in Revenue



Overall, a Corporation's Legal Costs Rose by Almost 8% in 2005

To understand the potential market for legal services, it is important for the law firm to understand the corporation's needs for legal services. One way to demonstrate this need is through the total legal spending of the business. On average, as demonstrated in the graph below, the largest corporations are spending \$877,772 per lawyer on legal services. Compared to 2004 information, this is a nearly 8% increase for 2005. Capturing a segment of this work is critical to the law firm's survival and necessitates an in-depth knowledge of the corporation's business and strategic direction, as well as strong capabilities and delivery systems. Overall, the key measure of a corporation's ability to manage legal costs is reflected in law department fees and expenses as a percent of annual revenues. This year, that percentage is .19% for the largest companies (\$5 billion and over).

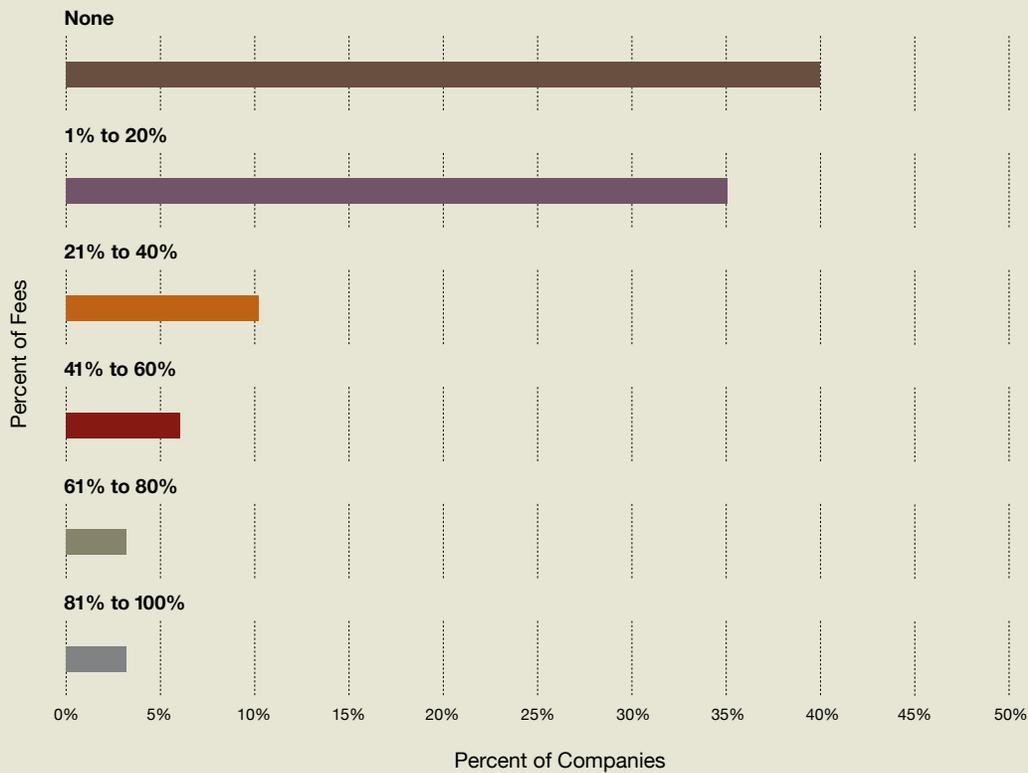
Total Law Department Fees/Expenses Per Lawyer by Annual Revenue



In spite of more than a decade of discussion and focus on alternative fee arrangements, most law firm/corporate law department billing arrangements continue to be hourly rates and discounts on hourly rates

Law departments continue to feel pressure from their Boards and top executives to manage their legal costs. A General Counsel is interested in excellent legal results but is also interested in cost management and predictability. With decades of available information regarding the cost of handling cases and matters, historical information can be used to better predict legal costs. In addition, law firms can demonstrate their resolve to be a long-term partner of the law department by showing a willingness to share in some of the risk associated with the potential legal results.

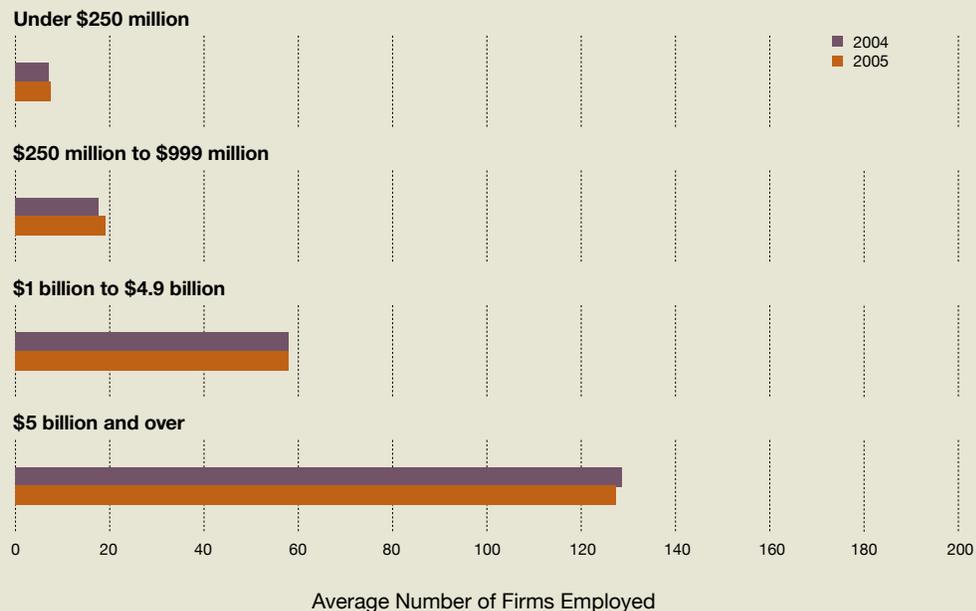
Percent of Fees Paid to Outside Counsel in Alternative Fee Arrangements



The average number of law firms employed by corporations showed little change overall and a slight decrease from 2004 to 2005 at the largest corporations (\$5 billion and over), demonstrating continuing careful management of the number of law firms employed

Perhaps no practice in outside counsel management has been discussed and written about more widely than the concept of convergence (reducing the number of outside law firms utilized to reduce costs and improve the quality of services delivered). Law departments continue to implement convergence programs in an attempt to establish a manageable number of law firms with whom they can have partnering relationships with and to leverage their purchasing power. Through a convergence process, some companies will reduce the number of firms they use by as much as 80%. This is a critical issue for law firms that want to ensure they remain on an approved list of outside counsel. Knowing the client, their business and their legal needs is critical to ultimately being a survivor in today's competitive marketplace.

Two Year Trend — Average Number of Law Firms Employed (by Annual Revenue)



Implications

Law firms cannot know enough about their clients and their business. Client retention and satisfaction are critical to a law firm's success, and the greater the understanding of the pressures today's General Counsel face, the better a law firm can meet the legal needs of its clients.

Methodology

The Law Department Metrics Benchmarking Survey, 2006 Edition contains data collected from 138 companies from April through July 2006. This survey presents analysis by revenue, number of employees served by the law department, size of law department and industry, as appropriate, for fiscal year 2005. Expenses are presented on a *per lawyer* and *per legal service provider* basis. (A *legal service provider* is determined by counting each lawyer as one legal service provider and each paralegal as one-half legal service provider.) The majority of respondents provided both detailed and total expenses, others provided only limited detail and incomplete totals. Therefore, the number of respondents may differ from analysis to analysis.

Respondents

138 Companies

- 28 with revenues under \$250 million
- 29 with revenues of \$250 million to \$999 million
- 42 with revenues of \$1 billion to \$4.9 billion
- 33 with revenues of \$5 billion and over
- 6 with no revenues provided

Discussion Notes

This benchmarking report clearly points out essential staffing and spending information necessary for a law firm to understand their clients' needs and operations.

The findings provided here generate valuable information for law firms to help align themselves more closely with their clients' needs. Following are some areas of focus:

- Because of financial pressures and rising outside counsel fees, in-house departments appear to be expanding. What steps can law firms take to address this trend and relieve some of the pressures facing General Counsel?
- How can a law firm help the General Counsel with the predictability of the corporation's annual legal spend? Can a "steady state" of legal work be established, knowing that extraordinary legal matters will generally arise during the year?
- What alternative fee arrangements will work with our clients? How can we take the initiative to present these alternative arrangements before the law department initiates the discussion?
- How does a law firm position itself to protect a valued relationship with corporate clients, realizing the impact of convergence programs? Does the firm truly know how it is perceived and how the client evaluates its performance?

TOTAL PRACTICE SOLUTIONS
Client Development Research Solutions Practice Management Litigation Services



121 Chanlon Road
New Providence NJ 07974
Phone: 1-800-526-4902
Fax: 1-908-771-8739
E-mail: info@martindale.com

No reproduction of any portion of this supplement is allowed without written permission. LexisNexis and the Knowledge Burst logo are registered trademarks of Reed Elsevier Properties Inc., used under license. © 2006 LexisNexis, a division of Reed Elsevier Inc. All rights reserved.

LMH00126-0